



June 18, 2004

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: The Narragansett Electric Company
Request for Recovery of Deferred Expenses

Dear Ms. Massaro:

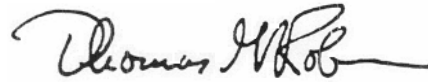
The attached filing contains ten (10) copies of the public version of The Narragansett Electric Company's ("Company") Statement of Facts with regard to the deferred expenses associated with uplift and other Independent System Operator of New England ("ISO-NE") tariff charges incurred by the Company in providing standard offer service to its customers from January 1999 through May 2004. The Company has also enclosed one (1) copy of the unredacted Statement of Facts which contains highly confidential and sensitive material for which the Company is seeking confidential treatment. This document has been provided in a separate envelope marked "Contains Privileged and Confidential Information – Do Not Release."

In accordance with Section 1.2(g) of the Commission's Rules of Practice and Procedure, the Company respectfully requests confidential treatment of the redacted portions of the Statement of Facts and associated attachments in this proceeding. The primary basis for this request is that the Company has a contractual obligation under the terms of its Wholesale Standard Offer Service Agreement (Appendix C) to not disclose information regarding the arbitration and dispute resolution process. Further, as described in the filing, the Company has more than one on-going dispute with its wholesale standard offer service suppliers. The Company is engaged in formal and informal processes to resolve the dispute and the disclosure of the material would affect the Company's ability to resolve these issues effectively and in the best interests of the Company's customers. Accordingly, the Company requests confidential treatment of the redacted information pursuant to Section 1.2(g) of the Commission's Rules of Practice and Procedure and §38-2-2(B) of the Access to Public Records Act of the Rhode Island General Laws.

Luly E. Massaro, Commission Clerk
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The Company is making this filing today in accordance with a discussion with the Commission staff. We will address the recovery of these uplift costs in a separate filing. Please do not hesitate to contact me or Laura Olton if you have any questions regarding this filing.

Very truly yours,

A handwritten signature in black ink, appearing to read "Thomas G. Robinson", with a stylized, cursive script.

Thomas G. Robinson

Enclosures

cc: Docket 2930 Service List
Paul Roberti (Confidential Material Provided)
Steve Scialabba (Confidential Material Provided)

The Narragansett Electric Company

Request for Recovery of Deferred Expenses

Statement of Facts

June 18, 2004

Submitted to:
Rhode Island Public Utilities Commission
R.I.P.U.C. Docket No.

Submitted by:



into the competitive market. The statute required that distribution companies meet two conditions: (1) the contract had to be put out for competitive bid and (2) standard offer prices had to meet a statutory price cap. The statute provided that:

The power supply contract required for the standard offer shall be awarded by public competitive bidding to the lowest priced power supplier. The standard offer shall be priced such that the average revenue per kilowatt-hour received from the customer for such power together with approved distribution, transmission and transition charges shall equal the price that would have been paid under rates in effect during the twelve (12) month period ending September 30, 1996 adjusted annually for eighty percent (80%) of the changes in the consumer price index for the immediately preceding twelve (12) month period, and also for other factors reasonably beyond the control of the electric distribution company and its former wholesale power supplier including but not limited to changes in federal, state, or local taxes or extraordinary fuel costs; provided, however, that adjustments to standard offer for factors other than inflation shall be subject to approval by the commission. The standard offer is to be a price cap and may, after notice to the commission, be less than the maximum allowed at anytime for the generation component of the standard offer.

3. Narragansett's rates for Standard Offer Service, even when including the disputed costs described herein, have never exceeded the statutory cap. *See* Attachment 1.
4. The Rhode Island Public Utilities Commission ("Commission") found that Narragansett met the requirement that the standard offer contracts be put out for competitive bid. *Narragansett Electric Company, Standard Offer*, Docket No. 2715, Order No. 15639, at 11 (issued July 10, 1998).

The 2002 Amendment to the Utility Restructuring Act

5. In P.L. 2002, ch. 144, § 1, the General Court amended the Utility Restructuring Act and specifically G.L. 39-1-27.3 to provide that:

The electric distribution company will be entitled to recover its costs incurred from providing the standard offer arising out of: (1) wholesale standard offer supply agreements with power suppliers in effect prior to January 1, 2002; (2) power supply arrangements that are approved by the commission after January 1, 2002; (3) power supply arrangements made pursuant to § 39-1-27.3; and (4) any other power supply related arrangements prudently made after January 1, 2002 to provide standard offer supply or to mitigate standard offer supply costs; provided, however, to the extent there are any cost recovery matters relating to the provision of standard offer service that have been deferred and are pending before the commission as of the effective date of this section, such cost recovery matters shall be governed by the statutory provisions in effect on the date of the action of the commission to defer its decision on the cost recovery matter.

Restructuring Agreement

6. Narragansett and its wholesale power supplier, New England Power Company (“NEP”), entered into a comprehensive restructuring agreement with the Commission and the Rhode Island Division of Public Utilities and Carriers (“Division”) dated May 30, 1997, under which NEP terminated Narragansett’s wholesale power contract and agreed to provide Narragansett with wholesale standard offer service during the period from the date that retail access commenced in Rhode Island through 2009 as required under G.L. §39-1-27.3(d). The restructuring agreement and wholesale standard offer contract were filed with the Federal Energy Regulatory Commission (“FERC”), and, following extensive discussions, were the subject of a comprehensive settlement that was approved by FERC by a letter order dated November 26, 1997 in Dockets ER97-678-000 and ER97-680-000. Letter Order provided as Attachment 2 . The November 26, 1997

letter also accepted NEP's wholesale standard offer contract with Narragansett for filing. *See* Order Denying Rehearing, 83 FERC ¶ 61,265 (June 3, 1998).

7. Under Section 39-1-27.4(g) of the URA, NEP, as wholesale supplier of electricity, was also required to "subject its electric generating facilities, other than nuclear units or entitlements . . . to a form of market valuation through lease, sale, spin-off or other method." To implement this requirement NEP was required to file an "implementation methodology" with the Commission on or before July 1, 1997. NEP made the filing on May 2, 1997, and in it notified the Commission that it intended to sell 100 percent of its non-nuclear assets, and that it intended to include the obligation to provide wholesale standard offer supplies with the sale. The Commission approved the divestiture implementation methodology on June 24, 1997 in Docket No. 2540. *Narragansett Electric Company and New England Power Company, Market Valuation Implementation Methodology*, Docket No. 2540, Order No. 15374 (issued August 12, 1997).

Agreements with USGenNE, TransCanada and Constellation

8. NEP and Narragansett completed the plan described to the Commission in Docket No. 2540 by entering into a series of agreements with USGen New England, Inc. ("USGenNE") under which the Companies agreed to divest their entitlements in their non-nuclear generation facilities, transfer their power contracts to USGenNE, and assign the responsibility to provide Narragansett's wholesale standard offer requirements from NEP to USGenNE. The transaction was filed with FERC on October 1, 1997 in Dockets EC98-1-000 and ER98-6-000. As part

of that transaction, USGenNE agreed to assume NEP's obligation to supply wholesale standard offer service to Narragansett and included a wholesale standard offer service contract in its filing to implement that agreement. *See* Attachment 3. In that agreement, Narragansett reserved its right to put the wholesale standard offer service out to bid as required under Section 39-1-27.3(d). *See* Article 1. Basic Understandings, and Article 2. Definitions, "Standard Offer Auction", "Wholesale Standard Offer Service".

9. FERC accepted Narragansett's wholesale standard offer agreement with USGenNE in its order approving the divestiture. 82 FERC ¶ 61,179 (Feb. 25, 1998), Order on Clarification and Rehearing, 83 FERC ¶ 61,275 (June 10, 1998).
10. On October 29, 1997, while the USGenNE transfer petition was pending at FERC and prior to its closing, USGenNE agreed to transfer several rights and obligations related to the Ocean State Power projects to TransCanada Power Marketing, Ltd. ("TransCanada") and assigned an undivided 9.22 percent portion of the wholesale standard offer contract with Narragansett to TransCanada. Thus, on October 29, 1997, the wholesale standard offer service contract was amended and restated into two separate agreements to facilitate the assignment of certain contract rights by USGenNE to TransCanada. The agreements were titled the Amended and Restated Wholesale Standard Offer Service Agreement and the NECO Wholesale Standard Offer Service Agreement II. *See* Attachments 4 and 5, respectively. FERC approved the sale and assignment of the wholesale

standard offer contracts in Docket EC98-18-000, 83 FERC ¶ 61,161 (May 14, 1998).

11. As described under paragraph 2 above, under the URA Narragansett was required to put the contract for wholesale standard offer supply out for competitive bid. Narragansett's power contracts with NEP, USGen and TransCanada preserved that option, and Narragansett exercised the bidding option in late 1997 and early 1998. The results were provided to the Commission in Docket No. 2715. As explained in that docket, Narragansett put the wholesale standard offer supply agreement out for bid in the first quarter of 1998. Qualifying bids were required to be equal to or lower than the wholesale standard offer rates contained in the restructuring settlement agreement and the USGenNE/TransCanada contracts. No bids were received. Based on this activity, the Commission found that Narragansett had complied with the competitive bidding requirement of the statute. Order No. 15639, at 11 (issued July 10, 1998).
12. On September 1, 1998, USGenNE and TransCanada began providing wholesale standard offer service to Narragansett pursuant to the terms of the Second Amended and Restated Wholesale Standard Offer Service Agreement and the Amended and Restated NECO Wholesale Standard Offer Service Agreement II (hereinafter referred to as "WSOS Agreements"). *See* Attachment 6 and 7, respectively.
13. On October 1, 2002, Constellation Power Source, Inc. ("Constellation"), in accordance with its August 23, 2002 Power Supply Agreement with Narragansett,

began providing forty (40) percent of Narragansett's Standard Offer 1 Service requirements previously provided by USGenNE, under a contract that made it incontrovertible that Constellation was responsible for the costs that were subject to dispute with USGenNE. (USGen's WSOS with Narragansett was correspondingly amended to reduce the percentage load it served by forty (40) percent.). The Constellation contract was approved by FERC on September 23, 2002 in Docket EC02-110-000, 100 FERC ¶ 62,191 (2002). On September 25, 2002, the Division consented to this transfer and authorized Narragansett to release USGenNE of 40% of Narragansett's standard offer load obligation. *See* Letter dated September 25, 2002 from Thomas F. Ahern, Administrator of the Division to Thomas G. Robinson attached as Attachment 8.

Uplift Dispute

14. On January 19, 1999, and January 26, 1999, the NEPOOL Executive Committee filed new and revised Market Rules as mandated by FERC's December 17, 1998 order in Docket Nos. OA97-237-000, et al. The restructured market rules were proposed for new market based rates for energy and ancillary service markets scheduled to be implemented on May 1, 1999. The proposed market rules allocated energy market uplift costs to Electrical Load. FERC accepted the new and revised market rules in its April 6, 1999 order in Docket Nos. ER99-1374-000, et al., 87 FERC ¶ 61,045 (1999).

15. Beginning in February 1999, Narragansett prepared and presented numerous filings to FERC arguing that energy market uplift costs should not be allocated on the basis of Electrical Load, but to suppliers of energy relying on the NEPOOL energy market and without regard to the type of energy contract (e.g., Load Asset vs. Percentage Obligation) used to enter the contract in the NEPOOL market system. *See* Attachment 9 (identifying numerous Company filings in various FERC dockets).
16. In a letter dated April 12, 1999, USGenNE notified Narragansett that it did not believe USGenNE was responsible for uplift or other ISO tariff expenses to be allocated on the basis of Electrical Load under the restructured market rules to be implemented on May 1, 1999. USGenNE claimed that the WSOS Agreements should be entered into the NEPOOL Market System as “Percent Obligation” contracts rather than as “Load Asset” contracts. *See* Attachment 10.
17. The disputed charges allocated on the basis of Electrical Load included:
- Energy Uplift Charges* – costs associated with out-of-merit dispatch of generation units for reasons other than congestion.
- ISO Schedule 2 Charges* – costs of the ISO to administer the NEPOOL Energy Markets; imposed by the ISO on market participants in accordance with Schedule 2, Energy Administration Services, of the ISO Tariff.
- ISO Schedule 3 Charges* – costs of the ISO to administer the NEPOOL reliability markets and services; imposed by the ISO on customers in

accordance with Schedule 3, Reliability Administration Service, of the ISO Tariff.

NEPOOL Restructuring Charges –transition costs and capital expenditures to restructure NEPOOL and establish ISO-NE.

Inadvertent Energy Balancing Charges – costs associated with inadvertent energy flows between NEPOOL and neighboring power pools.

Load Response Program Charges – costs associated with demand response programs within NEPOOL to induce customers to reduce electricity consumption during periods of peak demand.

18. Narragansett disagreed with USGenNE’s position on the parties’ responsibility for these costs under the WSOS Agreements, and claimed that Load Asset Contracts (which would transfer Electrical Load associated with the WSOS from Narragansett to USGenNE) should be used to represent the WSOS Agreements under the restructured market rules. *See* Attachment 11 (letter of Michael J. Hager letter to Dan Scobell dated April 22, 1999)

19. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

20. [REDACTED]
[REDACTED]

21.

22. On July 3, 2002, FERC agreed to change the allocation process consistent with Narragansett's filings, and ordered ISO-NE to revise the tariff effective July 1, 2001. 100 FERC ¶ 61,029 (2002).

Formal Dispute Resolution Process

23. On August 31, 2001, the formal dispute resolution process under the WSOS Agreement that included negotiation, mediation, and arbitration was initiated. *See* Attachment 13.

24. Negotiation meetings between management of Narragansett and USGenNE began in September 2001 and negotiations ended on October 2, 2001. A settlement was not reached. The parties elected to proceed to mediation. *See* Attachment 14.

25. Mediation sessions were held on February 4th and 5th, 2002

26. On March 27, 2002,

[REDACTED]

[REDACTED] Attachment 15.

27. On July 12, 2002, [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] See

Attachment 16.

28. Arbitration Hearings on the dispute were held [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Arbitration Decision

29. In June 2003, the Arbitration Panel issued its Decision. Decision attached as Attachment 17.

30. In its Decision, the Arbitration Panel found Narragansett and USGenNE each responsible for certain costs. *See* Attachment 18.

31. Narragansett has also incurred charges as a result of an identical dispute with TransCanada associated with the 9.22 percent portion of the wholesale standard offer contract with Narragansett that was assigned to TransCanada (see statement 10 above).
32. As a result of these disputes, from January of 1999 through May of 2004, Narragansett has incurred approximately \$5.9 million in deferred costs, excluding interest, associated with the wholesale standard offer service provided by USGenNE and approximately \$1 million, in deferred costs, excluding interest, associated with the service provided by TransCanada. *See* Attachment 19.
33. The disputed costs identified in paragraph 33 above do not include any additional disputed costs that have resulted from the implementation of NEPOOL Standard Market Design (“SMD”) on March 1, 2003. The SMD related disputes and associated charges have been identified by the Company in its filing in Docket No. 3571.

Narragansett’s Deferred Expenses

34. In Docket No. 3031, Narragansett and the Division informed the Commission that the Company was engaged in a dispute with its standard offer suppliers regarding certain ISO tariff expense amounts, including uplift expenses. In May 2000, the Division proposed and the Company agreed to deferring the recovery of these ISO tariff expenses until the dispute between Narragansett and its suppliers was resolved. *See* Docket No. 3031, Testimony of Dr. Stutz, at page 10 (May 3, 2000); Hearing Transcript, at pages 7-8 (May 10, 2000). Thus, in Docket No.

3031, the Commission found that the ISO Tariff expenses should be “removed from the calculation of the transmission adjustment factor” in Narragansett’s filing and to address it once the dispute is resolved between the parties.

Narragansett Electric Company, Transmission Adjustment Factor Rate

Reconciliation, Docket No. 3031, Order No. 16275, page 8 (issued May 31, 2000). The recovery of the disputed costs was deferred by the Commission prior to the enactment of the 2002 Amendment to the Utility Restructuring Act.

35. The disputed costs have been reported in the annual transmission reconciliation rate filings each year since 1999. *See* Docket No. 3031, Exhibit JGW-1, Page 1 (reconciliation for January 1999 to December 1999); Docket No. 3243, Exhibit JAL-7, Page 1 (reconciliation for January 2000 to December 2000); Docket No. 3402, Exhibit JAL-11, Revised, Page 1 (reconciliation for January 2001 to September 2001); Docket No. 3479, Exhibit JAL-5, Page 5 (reconciliation for October 2001 to September 2002); Docket No. 3571, Exhibit JAL-5, Page 5 (reconciliation for October 2002 to September 2003).
36. From June 1999 to date, the Company has incurred a total of \$7.4 million of deferred expenses, including interest. In Docket 3571, the Company’s most recent reconciliation filing, the Company identified that it had incurred approximately \$6.8 million of deferred costs, including interest. For the period from October 2003 to date, the Company has incurred an additional \$663,000 of deferred expenses, for a total of \$7.4 million. If the \$7.4 million of deferred costs were collected from all customers through the transmission adjustment factor over

a one year period, the resulting charge would equal 0.099 cents/kWh, or 49 cents/month for a typical 500 kWh/month customer. *See* Attachment 20.

Narragansett's Merger Rate Plan

37. On March 14, 2000, Narragansett and several other parties filed with the Commission in Docket 2930, the Third Amended Stipulation and Settlement designed to, among other things, implement a long term rate plan for the Company and its customers. The Third Amended Stipulation and Settlement was approved by the Commission in Order No. 16200 on March 24, 2000.
38. Under Section 6 of the Third Amended Stipulation and Settlement, Narragansett implemented a five year freeze in distribution rates subject to adjustments for Exogenous Events. The Exogenous Events include an adjustment for a "Regulatory Cost Reallocation," which is defined as "the reassignment of costs and/or revenues now allocated to generation, transmission, or distribution functions to or away from the distribution function by the Commission, FERC, NEPOOL, the ISO or any other official agency having authority over such matters." The reallocation of the costs away from the transmission function to the distribution function by the Commission would give rise to an Exogenous Event.
39. Under Section 11 of the Third Amended Stipulation and Settlement, Narragansett is required to file annual Earnings Reports for informational purposes and by May 1, 2005 an Earnings Report calculating the five year average return on equity on intrastate earnings for the period commencing January 1, 2000 through December 31, 2004. Narragansett has recorded a regulatory asset for the costs disputed in

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this case. The disallowance of the recovery of those costs would reduce Narragansett's pre-tax earnings during the period by a like amount.

The Narragansett Electric Company
Calculation of Standard Offer Cap

Calculation of CPI

<u>Month</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
1. December	153.5	158.6	161.3	163.9	168.3	174.0	176.7	180.9
2. January	154.4	159.1	161.6	164.3	168.8	175.1	177.1	181.7
3. February	154.9	159.6	161.9	164.5	169.8	175.8	177.8	183.1
4. March	155.7	160.0	162.2	165.0	171.2	176.2	178.8	184.2
5. April	156.3	160.2	162.5	166.2	171.3	176.9	179.8	183.8
6. May	156.6	160.1	162.8	166.2	171.5	177.7	179.8	183.5
7. June	156.7	160.3	163.0	166.2	172.4	178.0	179.9	183.7
8. July	157.0	160.5	163.2	166.7	172.8	177.5	180.1	183.9
9. August	157.3	160.8	163.4	167.1	172.8	177.5	180.7	184.6
10. September	157.8	161.2	163.6	167.9	173.7	178.3	181.0	185.2
11. October	158.3	161.6	164.0	168.2	174.0	177.7	181.3	185.0
12. November	158.6	161.5	164.0	168.3	174.1	177.4	181.3	184.5
13. December	158.6	161.3	163.9	168.3	174.0	176.7	180.9	184.3
14. Line 13. - Line 1.	5.1	2.7	2.6	4.4	5.7	2.7	4.2	3.4
15. Line 14 ÷ Line 1.	3.32%	1.70%	1.61%	2.68%	3.39%	1.55%	2.38%	1.88%
16. 80% x Line 15.	2.66%	1.36%	1.29%	2.15%	2.71%	1.24%	1.90%	1.50%

Calculation of SO CAP

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004 (1)</u>
17. Initial Value.....	\$0.10459							
18. from Line 16.	2.66%	1.36%	1.29%	2.15%	2.71%	1.24%	1.90%	1.50%
19. Line 17. x Line 18.	\$0.10736	\$0.10882	\$0.11022	\$0.11258	\$0.11563	\$0.11706	\$0.11928	\$0.12107
20. Line 19 x 4% (for GET)	\$0.00429	\$0.00435	\$0.00440	\$0.00450	\$0.00462	\$0.00468	\$0.00477	\$0.00484
21. Line 19. - Line 20.	\$0.10307	\$0.10447	\$0.10582	\$0.10808	\$0.11101	\$0.11238	\$0.11451	\$0.11623
22. Distribution	\$0.03000	\$0.02965	\$0.02965	\$0.02965	\$0.02910	\$0.02910	\$0.02910	\$0.02910
23. Transmission	\$0.00400	\$0.00386	\$0.00454	\$0.00454	\$0.00797	\$0.00449	\$0.00449	\$0.00428
24. Conservation	\$0.00230	\$0.00230	\$0.00230	\$0.00230	\$0.00230	\$0.00230	\$0.00230	\$0.00230
25. Transition	\$0.02800	\$0.02800	\$0.01150	\$0.01150	\$0.00988	\$0.00874	\$0.00944	\$0.00855
26. Cap (Line 21. - Line 22. - Line 23. - Line 24. - Line 25.)	\$0.04066	\$0.05783	\$0.06009	\$0.06176	\$0.06775	\$0.06775	\$0.06918	\$0.07200
27. Base Standard Offer		\$0.03200	\$0.03500	\$0.03800	\$0.03800	\$0.04200	\$0.04700	\$0.05100
28. Standard Offer with Uplift Expense		\$0.03200	\$0.03525	\$0.03850	\$0.03814	\$0.04212	\$0.04708	\$0.05109
29. Standard Offer with Uplift and Fuel Index Adj.		\$0.03200	\$0.03525	\$0.04359	\$0.06016	\$0.04679	\$0.05159	\$0.05909

(1) Reflects disputed costs incurred through May 2004 and estimated fuel adjustment for 2004 of \$.00800 per kWh as filed in RIPUC Docket No. 3571.

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

November 26, 1997

In Reply Refer To:
Docket Nos. ER97-678-000
and ER97-680-000

Swidler & Berlin
ATTN: Mr. Edward Berlin
Attorney for New England
Power Company
3000 K Street, N.W.
Washington, D.C. 20007-5116

Dear Mr. Berlin:

On May 29 and 30, 1997, you filed with the Commission, on behalf of New England Power Company (NEPCO), a settlement agreement among NEPCO, Massachusetts Electric Company (Masselec), and other parties, and a settlement agreement among NEPCO, Narragansett Electric Company (Narragansett), and certain other parties in the above referenced dockets. In order to accommodate the introduction of retail competition programs in Massachusetts and Rhode Island, the settlements shorten the notice of termination provision from seven years to a 90-day notice period to allow for earlier termination by Masselec and Narragansett of their requirements service under NEPCO's Tariff No. 1. Both settlements provide NEPCO the opportunity to recover stranded costs in the form of Contract Termination Charges (CTC). The settlements, among other things, also provide for Wholesale Standard Offer Service which allows Masselec and Narragansett the option to purchase power from NEPCO to serve retail customers who do not obtain power from alternative suppliers under their respective retail competition programs. In addition, both settlements include provisions proposing to restrict the Commission's future review of the justness and reasonableness of the CTC, and a proposal for the jurisdictional separation of transmission and local distribution facilities (T/LD Split).

On June 18 and 19, 1997, Commission trial staff filed comments in support of the settlements. On June 18, 1997, the Town of Norwood, Massachusetts and Wheelabrator Environmental Systems, Inc. (Wheelabrator) filed comments in opposition to the settlements. Reply comments were filed by the Commission's trial staff, NEPCO, Norwood, Massachusetts Department of Utilities, and the Massachusetts Department of Energy Resources. The Rhode Island Public Utilities Commission (Rhode Island Commission) and the Rhode Island Division of Public Utilities and Carriers (Rhode

Swidler & Berlin -- Docket Nos. ER97-678-000 and ER97-680-000

Island DPUC) filed comments out-of-time on July 1, 1997. The Office of the Attorney General of Massachusetts (Massachusetts Attorney General) also filed reply comments on July 1, 1997. On July 2, 1997, Wheelabrator filed a motion to withdraw its comments opposing the settlements. On July 11, 1997, the presiding Administrative Law Judge certified the settlements to the Commission as contested settlements presenting no genuine issues of material fact.

On September 11, 1997, Norwood filed a motion to reopen the evidentiary record to present new evidence. On September 17 and 26, 1997, NEPCO, the Rhode Island DPUC, the Rhode Island Commission, and Massachusetts Attorney General filed answers in opposition to Norwood's motion to reopen the record.

As correctly noted by NEPCO, the presiding Administrative Law Judge and Commission trial staff, the provisions of the settlements do not directly affect Norwood. Until Norwood terminates its requirements service contract with NEPCO, it does not face any stranded cost charges. Similarly, Norwood is not directly affected by the rates proposed for the Wholesale Standard Offer Service, which Norwood is not obligated to purchase.

Regarding the proposed T/LD Split, the Commission notes that approval of the proposed T/LD Split is not a condition of the settlement. Furthermore, the Commission clarified in Order No. 888-A that "there is an element of local distribution service in any unbundled retail transaction." 1/ Accordingly, Commission approval of the proposed T/LD Split is not required to allow either Massachusetts or Rhode Island to assess a surcharge for retail stranded cost recovery. In light of these facts, it is unnecessary for the Commission to address the proposed T/LD split and we make no findings regarding that issue in this order.

1/ Order No. 888-A, FERC Stats. & Regs. ¶ 31,048 at 30,335 (1997), order on reh'g, Order No. 888-B, 81 FERC ¶ 61,248 (1997).

Swidler & Berlin -- Docket Nos. ER97-678-000 and ER97-680-000

Sections 3.6 and 6.1.4 of the settlements propose to restrict not only the rights of parties to the settlement, but also non-settling parties' rights to apply to the Commission for changes to the CTC under sections 205 and 206 of the Federal Power Act, absent consent by NEPCO. A settlement may not restrict the rights of non-settling parties to apply to the Commission for changes in rates pursuant to section 206 under a "just and reasonable" standard. Nor may a settlement preclude the Commission, in order to protect the interests of non-settling parties, from investigating rates, terms and conditions pursuant to section 206 under a "just and reasonable" standard at such times and under such circumstances as it deems appropriate. The settling parties may, however, agree to bind themselves to a "public interest" standard of review as to their own future attempts to change rates, terms and conditions, and similarly may bind the Commission to a "public interest" standard of review when acting sua sponte on behalf of the settling parties. ^{1/} Accordingly, the Commission conditionally approves the proposed settlements subject to the settlement parties agreeing to revise Sections 3.6 and 6.1.4 to eliminate restrictions on non-settling parties' rights and the Commission's rights when acting on behalf of non-settling parties. The settling parties will have 30 days from the date of this order to amend Sections 3.6 and 6.1.4 of the settlements as discussed above.

We further note that NEPCO has not submitted its proposed accounting for stranded costs and related revenues, as required by Order No. 888. ^{1/} Accordingly, we will require NEPCO to submit its proposed accounting within 30 days from the date of this order.

The subject settlements are in the public interest and are hereby conditionally approved. The rates submitted with the settlements are accepted for filing and designations will be assigned upon Commission acceptance of the required compliance filing. The Commission's conditional approval of the settlements does not constitute approval of, or precedent regarding, any principle or issue in these proceedings.

^{2/} Southern Company Services, Inc., 67 FERC ¶ 61,080 at 61,227-28 (1994); Carolina Power & Light Company, 67 FERC ¶ 61,074 at 61,205 (1994).

^{3/} Order No 888, FERC Stats. & Regs. ¶ 31,036 at 31,846 (1996).

Swidler & Berlin -- Docket Nos. ER97-678-000 and ER97-680-000

By direction of the Commission.

Lois D. Cashell,
Secretary.

cc: To All Parties of Record

Massachusetts Department of Public Utilities
100 Cambridge Street
Boston, Massachusetts 02202

WHOLESALE STANDARD OFFER SERVICE AGREEMENT

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between

THE NARRAGANSETT ELECTRIC COMPANY

and

USGEN ACQUISITION CORPORATION

Dated as of August 5, 1997

WHOLESALE STANDARD OFFER SERVICE AGREEMENT

This **WHOLESALE STANDARD OFFER SERVICE AGREEMENT** ("Agreement") is dated as of August 5, 1997 and is by and between **THE NARRAGANSETT ELECTRIC COMPANY**, a Rhode Island corporation ("NECO"), and **USGen Acquisition Corporation**, a Delaware corporation ("Seller"). This Agreement provides for the purchase by NECO and the sale by Seller of Wholesale Standard Offer Service, as defined in this Agreement.

ARTICLE 1. BASIC UNDERSTANDINGS

NECO purchases all of its requirements of electricity for resale to its retail electric customers from its affiliate, **New England Power Company** ("NEP").

NEP, NECO and other parties have entered into an agreement in settlement of regulatory proceedings before the Federal Energy Regulatory Commission (the "Rhode Island Restructuring Agreement") that, among other things, implements certain requirements of the Rhode Island Utility Restructuring Act of 1996 (the "Act"), permits NECO to terminate wholesale purchases from NEP, permits current retail customers of NECO to purchase electricity from other suppliers on and after a date defined therein as the "Retail Access Date," or, for a limited time, to purchase Standard Offer Service from NECO, obligates NEP to supply NECO with power sufficient to meet the latter's obligations to supply Standard Offer Service, and obligates NEP to transfer its interests in the electric generating business to another party or parties.

NEP, NECO, and Seller have entered an agreement under which Seller will acquire certain NEP and NECO generating assets.

NEP and Seller desire that Seller shall supply electric capacity and energy to NECO to fulfill a portion of NEP's power supply obligations under the Rhode Island Restructuring Agreement.

Under the Rhode Island Restructuring Agreement, NECO is obligated to afford wholesale power suppliers other than NEP the opportunity to commit to supply NECO with power sufficient to meet NECO's obligation to supply retail Standard Offer Service after the Retail Access Date.

This Agreement sets forth the terms under which Seller will supply Wholesale Standard Offer Service to NECO, for a period beginning on the Closing Date, to enable NECO to meet the needs of its retail customers for electricity, including all or a portion of the needs of customers receiving retail Standard Offer Service after the Retail Access Date.

ARTICLE 2. DEFINITIONS

The following words and terms shall be understood to have the following meanings when used in this Agreement, or in any associated documents entered into in conjunction with this Agreement. In addition, except as otherwise expressly provided, where terms used in this Agreement are defined in the NEPOOL Agreement and not otherwise defined herein, such definitions are expressly incorporated into this Agreement by reference.

Affiliate of NECO - Any company that is a subsidiary of New England Electric System and its successors.

Closing Date - The date upon which the Seller acquires ownership of generating assets it purchases from NEP.

Commission or FERC - The Federal Energy Regulatory Commission or such successor federal regulatory agency as may have jurisdiction over this Agreement.

Contract Termination Date - The date established by the Rhode Island Restructuring Agreement when the respective obligations of NEP and NECO under NEP's FERC Electric Tariff, Original Volume No. 1, to sell and purchase wholesale electric requirements service shall cease. The Contract Termination Date shall occur on the earlier of the Retail Access Date or the Wholesale Access Date.

GWh - Gigawatt hour.

ISO - The Independent System Operator to be established in accordance with the NEPOOL Agreement and the Interim Independent System Operator Agreement as amended, superseded or restated from time to time.

kWh - Kilowatt- hour.

MECO - Massachusetts Electric Company.

MECO Wholesale Standard Offer Service Agreement - The Wholesale Standard Offer Service Agreement of even date herewith between MECO and the Seller.

NECO's Service Territory - The geographic area in which NECO provided electric service to retail customers on August 6, 1996.

NECO's System - The electrical system of NECO and/or the electrical system of any Affiliate of NECO.

MMBtu - Million British thermal units.

NEP - New England Power Company, an Affiliate of NECO.

NEPEX - The New England Power Exchange.

NEPOOL - The New England Power Pool.

NEPOOL Agreement - The New England Power Pool Agreement dated as of September 1, 1971, as amended and as may be amended or restated from time to time.

Price - The price set forth in SECTION 5.1, below.

Prime Rate - The prime (or comparable) rate announced from time to time as its prime rate by the Bank of Boston or its successor, which rate may differ from the rate offered to its more substantial and creditworthy customers.

PTF - Facilities categorized as Pool Transmission Facilities under the NEPOOL Agreement.

Retail Access Date - The date so defined under the Rhode Island Restructuring Agreement, as the later of January 1, 1998, or the date of a final, nonappealable order of the RIPUC approving the divestiture plan for the disposition of NEP's non-nuclear generating facilities provided, however, that in any event the Retail Access Date shall occur no later than three (3) months after retail access is available to forty percent (40%) or more of the kilowatt hour sales in New England including the total kilowatt hour sales in Rhode Island.

Rhode Island Restructuring Agreement - The Offer of Settlement dated May 30, 1997, entered into by and among the RIPUC, the Rhode Island Division of Public Utilities and Carriers, NECO, and NEP, as amended and accepted or approved by the FERC.

RIPUC - The Rhode Island Public Utilities Commission.

Standard Offer Auction - The solicitation by NECO of offers from wholesale power suppliers, including, at their option, NEP and Seller, of electric energy and associated capacity and ancillary services necessary to meet the needs of ultimate customers of NECO eligible for and accepting retail Standard Offer Service on or after the Retail Access Date, and any wholesale electric supply contracts resulting from that solicitation. The solicitation and any contract(s) entered into as a result thereof shall not be on terms that are materially different from those described by MECO in the Massachusetts Restructuring Agreement (as defined in the MECO Wholesale Standard Offer Service Agreement), the RFQ dated April 3, 1997, and the letter to potential asset purchasers dated June 16, 1997, or result in a material adverse impact on Seller. NECO shall not, without Seller's consent, conduct the Standard Offer Auction more than once or more than six (6) months prior to the Retail Access Date, which date shall be as reasonably determined by NECO.

Standard Offer Service - The electric service provided by NECO pursuant to the Rhode Island Restructuring Agreement: (i) to retail customers in NECO's Service Territory during the period, if any, during the term of this Agreement preceding the Retail Access Date; and (ii) to NECO's retail customers on the Retail Access Date that do not elect to obtain their electric supply from an alternative supplier on or after the Retail Access Date through December 31, 2009.

Wholesale Access Date - The date so defined under the Rhode Island Restructuring Agreement, as the date on which NECO in its sole discretion decides to terminate its purchase from NEP of wholesale requirements service pursuant to NEP's FERC Electric Tariff, Original Volume No. 1, by providing the Commission and the Signatories to the Rhode Island Restructuring Agreement with 90 days advance notice in writing, said date not to be earlier than January 1, 1998.

Wholesale Standard Offer Service - The generation and delivery, to any location on the NEPOOL PTF system or NECO's system, of the portion of the electric capacity, energy and ancillary services required by NECO to meet the needs of NECO's ultimate customers taking Standard Offer Service, excluding, after the Retail Access Date, any portion of such requirements that NECO has contracted to obtain through the Standard Offer Auction, determined in accordance with ARTICLE 4. Seller, as the supplier of Wholesale Standard Offer Service capacity and energy, will be responsible for all present, or future requirements and associated costs for installed capability, operable capability, energy, operating reserves, and automatic generation control, including tie benefit payments, losses and any congestion charges associated with Seller's supply of Wholesale Standard Offer Service and any other requirements imposed by NEPOOL or the ISO, as they may be in effect from time to time. To the extent that any NEPOOL, ISO or any successor entity expenses or uplift costs are allocated to wholesale suppliers, the portion of such costs associated with Seller's supply of Standard Offer Service will also be the responsibility of Seller. To the extent any costs contemplated by this paragraph are applicable to NECO and recoverable by NECO from its customers, NECO shall be responsible for such costs.

ARTICLE 3. TERM AND REGULATORY APPROVAL

3.1 Term

The term of this Agreement shall begin at 12:01 am on the Closing Date and continue until the earlier of: (a) 11:59 pm on December 31, 2009; or (b) the first date that NECO has no requirements for electric capacity and energy to supply Standard Offer Service that are not satisfied by contracts resulting from the Standard Offer Auction

3.2 Obtaining and Maintaining Required Permits

(a) Performance under this Agreement is conditioned upon both Parties securing and maintaining such federal, state or local approvals, grants or permits as may be necessary for the sale and purchase of Wholesale Standard Offer Service, which shall not include any approvals, grants, or permits necessary for the operation of any particular generating facility. Each Party shall use reasonable efforts to acquire and maintain such approvals, grants or permits. If the acquisition or maintenance of a particular approval, grant, or permit requires a modification to this Agreement, then the Parties agree to negotiate in good-faith to reach a mutually agreeable modification of the Agreement. The Parties are not required to reach such a mutually acceptable modification.

(b) Seller will file this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) in accordance with the provisions of applicable laws, rules and regulations. Seller will be responsible for any filing fees for filing this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) and for any regulatory assessments associated with sales under this Agreement. FERC approval of this Agreement shall be a condition to the obligations of the Parties hereunder.

ARTICLE 4. SALE AND PURCHASE

Seller shall sell and deliver to the Delivery Points, as defined in ARTICLE 6, SECTION 6.1, and NECO shall purchase, the quantity of Wholesale Standard Offer Service determined as follows:

- a) if Seller has purchased both NEP's fossil fuel-fired generating facilities and NEP's hydroelectric generating facilities from NEP, then Seller shall sell and NECO shall purchase 100% of NECO's requirements for Wholesale Standard Offer Service;
- b) if Seller has purchased only NEP's hydroelectric generating facilities, then Seller shall sell and NECO shall purchase 10% of NECO's requirements for Wholesale Standard Offer Service; and
- c) if Seller has purchased only NEP's fossil fuel-fired generating facilities then Seller shall sell and NECO shall purchase 90% of NECO's requirements for Wholesale Standard Offer Service.

NECO's requirements for Wholesale Standard Offer Service shall be determined on the basis of ARTICLE 6, SECTION 6.3, below, and the price for such sale and purchase shall be as set forth in ARTICLE 5, SECTION 5.1, below.

ARTICLE 5. PRICE AND BILLING

5.1 Price

For each kilowatt hour of Wholesale Standard Offer Service that Seller delivers to the Delivery Points, in accordance with ARTICLE 6, SECTION 6.3, below, NECO shall pay Seller a price equal to the following amounts for each period during the term of this Agreement:

Period	Price in Cents per kWh
1998	3.2 Cents
1999	3.5 Cents
2000	3.8 Cents
2001	3.8 Cents
2002	4.2 Cents
2003	4.7 Cents
2004	5.1 Cents
2005	5.5 Cents
2006	5.9 Cents
2007	6.3 Cents
2008	6.7 Cents
2009	7.1 Cents

In addition, in the event of increases in the market price of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999 as described in Appendix A, NECO shall pay Seller a percentage of any incremental revenues received by NECO as a result of NECO's Customer Rate Fuel Adjustment, described in Appendix A, attached and incorporated herein by reference. Such percentage, with respect to the billing month, shall equal the percentage of NECO's total Standard Offer Service requirements during the month that Seller delivers under this Agreement.

5.2 Payment

(a) On or before the tenth (10th) day of each month during the term of this Agreement, NECO shall: (i) calculate the amount due and payable to Seller pursuant to this ARTICLE 5 with respect to the preceding month; and (ii) advise Seller of the schedule upon which it shall pay the amount so calculated, which schedule shall comply with paragraph (b), below. The amount payable shall be calculated by multiplying the Price specified in the first paragraph of ARTICLE 5, SECTION 5.1, above, for the applicable Contract Period by the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points for NECO's Standard Offer Service customers in the month, as determined in accordance with ARTICLE 6, SECTION 6.3, below. Because quantities determined under SECTION 6.3 are estimated, subject to a reconciliation process described in SECTION 6.3(d), quantities used in calculations under this paragraph (a) shall be subject to adjustment, whether positive or negative, in subsequent months' calculations, to reflect that reconciliation process, and any adjusted quantities shall be applied to the Price applicable during the month of the calculation being adjusted. Seller's percentage of any Customer Rate Fuel Adjustment incremental revenue shall be added to such amount.

(b) NECO shall pay Seller any amounts due and payable on or before the twenty-fifth (25th) day after the date a calculation is made pursuant to paragraph (a), provided that, if and to the extent NECO pays Seller any portion of the amount due and payable before the twenty-fifth (25th) day after a calculation is made, it shall be entitled, without interest or penalty, to defer payment of an equal portion of the amount due and payable for that month by the lesser of: (i) the same number of days that the early payment preceded the twenty-fifth day after the calculation; and (ii) twenty-five (25) days. If all or any part of any amount due and payable pursuant to paragraph (a) shall remain unpaid thereafter, interest shall thereafter accrue and be payable to Seller on such unpaid amount at a rate per annum equal to two percent (2%) above the Prime Rate in effect on the date of such bill; provided, however, if the amount due and payable is disputed, interest shall accrue and be payable to Seller on the unpaid amount finally determined to be due and payable at a rate per annum equal to the Prime Rate in effect on the date of the calculation pursuant to paragraph (a); and provided, further, no interest shall accrue in favor of Seller or NECO on amounts that are added to or credited against a calculation due to the adjustment of estimated quantities in accordance with paragraph (a) and ARTICLE 6, SECTION 6.3.

(c) With respect to reconciliation adjustments pursuant to SECTION 6.3(d) or any error in a calculation (whether the amount is paid or not), any overpayment, underpayment, or reconciliation adjustment will be refunded or paid up, as appropriate. Interest shall accrue from the date of the error or adjustment on the unpaid or overpaid amount finally determined to be due and shall be calculated pursuant to Section 35.19a of the Commission regulations.

5.3 Taxes, Fees and Levies

Seller shall be obligated to pay all present and future taxes, fees and levies which may be assessed upon Seller by any entity upon the purchase or sale of electricity covered by the Agreement. To the extent such taxes, fees, and levies are allowed to be, and are actually, recoverable by NECO from its customers, NECO shall reimburse Seller for such taxes, fees, and levies paid by Seller. It is expressly agreed that Seller shall not be responsible for, and shall be held harmless from, the Rhode Island Tax on gross receipts or earnings (Public Service Corporation Tax, Chapter 44-13 of the Rhode Island General Laws, as amended or superseded).

ARTICLE 6. DELIVERY, LOSSES, AND DETERMINATION AND REPORTING OF HOURLY LOADS

6.1 Delivery

All electricity shall be delivered to NECO in the form of three-phase sixty-hertz alternating current at any location on the NEPOOL PTF system or NECO's System ("Delivery Points"). Title shall pass to NECO at the Delivery Point and Seller shall incur no expense or risk beyond the Delivery Point other than those described in SECTION 6.2. If the NEPOOL control area experiences congestion, Seller will be responsible for any congestion costs incurred in delivering power across the PTF system to NECO to the extent such costs are imposed by NEPOOL or the ISO on suppliers. Seller shall be responsible for all transmission and distribution costs associated with the use of transmission systems outside of NEPOOL and any local point to point charges and distribution charges needed to deliver the power to the NEPOOL PTF.

6.2 Losses

Seller shall be responsible for all transmission and distribution losses associated with the delivery of electricity supplied under this Agreement to the meters of ultimate customers of NECO receiving retail Standard Offer Service, provided, however, that losses do not include service to unmetered facilities for which estimates of kWh use are available and provided, further, that Seller shall not be responsible for unmetered use or consumption of electricity by NECO's Affiliates. Seller shall provide NECO at the Delivery Points with additional quantities of electricity and ancillary services to cover such losses, but Seller shall not be entitled to payment under ARTICLE 5 of this Agreement for such additional quantity. The quantities required for this purpose in each hour of a billing period shall be determined in accordance with NEPOOL's, NEP's and NECO's filed procedures for loss determination.

6.3 Determination and Reporting of Hourly Loads

(a) To meet its NEPOOL obligations, Seller, or a NEPOOL member having an own-load dispatch or settlement account with the NEPOOL billing system with whom Seller has a load inclusion agreement, must report to NEPOOL or the ISO the Standard Offer Service load for which Seller is providing Wholesale Standard Offer Service pursuant to this Agreement, including losses. To accomplish this, NECO will estimate its total hourly Standard Offer Service load based upon average load profiles developed for each NECO customer class and NECO's actual total hourly load. Appendix B, attached and incorporated herein by reference, provides a general description of the estimation process that NECO will initially employ (the "Estimation Process"). NECO reserves the right, subject to the approval of appropriate regulatory authorities having jurisdiction to modify the Estimation Process in the future, provided that any such modification be designed to improve the accuracy of its results, and provided further that NECO shall consult with Seller and other similarly situated sellers to the maximum extent permitted by any applicable standards of conduct. NECO will report to NEPOOL, on behalf of Seller or such other NEPOOL member, Seller's hourly Standard Offer Service load, which shall equal the portion of NECO's estimated total Standard Offer Service hourly load for which Seller is responsible for supplying Wholesale Standard Offer Service under this Agreement.

(b) NECO will report to NEPOOL or the ISO Seller's hourly adjusted Standard Offer Service loads by 12:00 noon of the second following business day. This adjusted load should be added by NEPOOL or the ISO to the other NEPOOL load of Seller or such other NEPOOL member.

(c) At the end of each month, NECO shall aggregate Seller's hourly loads for the month as determined by the Estimation Process. For purposes of SECTION 5.1, above, the result of the Estimation Process, less losses to the Standard Offer Service customers' meters determined as specified in ARTICLE 6 SECTION 6.2, above, will be deemed to be the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points in a month.

(d) To refine the estimates of Seller's monthly Standard Offer Service load developed by the Estimation Process, a monthly calculation will be performed to reconcile the original estimate of Seller's Standard Offer Service loads to actual customer usage based on meter reads. NECO will apply any resulting billing adjustment (debit or credit) to Seller's account no later than the last day of the third month following the billing month. Appendix B, attached and incorporated herein by reference, also provides a general description of this reconciliation process.

ARTICLE 7. DEFAULT AND TERMINATION

7.1 Material Breach and Termination

- (a) (i) If NECO fails in any material respect to comply with, observe or perform any covenant, warranty or obligation under this Agreement

(except due to causes excused by force majeure or attributable to Seller's wrongful act or wrongful failure to act); and

(ii) After receipt of written notice from Seller such failure continues for the Cure Period (as defined below), or, if such failure cannot be reasonably cured within the Cure Period, such further period as shall reasonably be required to effect such cure (except in the case of a payment default), provided that NECO commences within the Cure Period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then

(iii) Seller shall have the right to terminate this Agreement, subject to paragraph (c) below. For purposes of this Section 7.1(a), the Cure Period shall mean five days in the case of a failure by NECO to fulfill its payment obligations pursuant to Section 5.2 and forty-five (45) days in the case of a failure by NECO to comply with, observe or perform any other covenant, warranty or obligation under this Agreement. If an unexcused failure to pay continues for fifteen (15) days, Seller shall have the right to suspend service until payment is made in full and appropriate security is posted for future payments or to terminate this Agreement.

(b) (i) If Seller fails in any material respect to comply with, observe, or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to NECO's wrongful act or wrongful failure to act); and

(ii) After receipt of written notice from NECO such failure continues for a period of forty-five (45) days, or, if such failure cannot be reasonably cured within such forty-five (45) day period, such further period as shall reasonably be required to effect such cure, provided that Seller commences within such forty-five (45) day period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then

(iii) NECO shall have the right to terminate this Agreement, subject to paragraph (c) below.

(c) Any termination arising out of the exercise of the termination rights specified in paragraphs (a) or (b) above (with the exception of termination for a payment default) may not take effect unless and until an arbitrator (pursuant to ARTICLE 15, SECTION 15.2 of this Agreement) has made a ruling that the exercise of such termination right was valid. The fact that one party alleged to be in material breach of this Agreement ("Alleged Breaching Party") complies with the request of the other to cure an alleged material breach shall not be

considered by the arbitrator as an admission against the Alleged Breaching Party or evidence that such party was or was not in material breach.

(d) Nothing in this SECTION 7.1 shall be construed to limit the right of any party to seek any remedies for damages, as limited by ARTICLE 9 of this Agreement, even if a cure of an alleged breach is made within the periods of time specified for curing any such breach stated above. The provisions of this SECTION 7.1 are intended only to provide the exclusive process through which one party may exercise and effectuate its right to terminate this Agreement as a result of a material breach of this Agreement.

ARTICLE 8. NOTICES, REPRESENTATIVES OF THE PARTIES

8.1 Notices

Any notice, demand, or request required or authorized by this Agreement to be given by one party to another party shall be in writing. It shall either be sent by facsimile (confirmed by telephone), overnight courier, personally delivered and acknowledged in writing or by registered or certified mail, (return receipt requested) postage prepaid, to the representative of the other party designated in this ARTICLE 8. Any such notice, demand, or request shall be deemed to be given (i) when sent by facsimile confirmed by telephone, (ii) when actually received if delivered by courier or personal deliver or (iii) three (3) days after deposit in the United States mail, if sent by first class mail.

Notices and other communications by Seller to NECO shall be addressed to:

The Narragansett Electric Company
c/o New England Power Service Company
25 Research Drive
Westborough, MA 01582
Attention: Michael J. Hager
Fax: (508) 389-3001

Notices and other communications by NECO to Seller shall be addressed to:

USGen Acquisition Corporation
7500 Old Georgetown Road, 13th Floor
Bethesda, MD 20814
Attention: Stephen A. Herman
Fax: (301) 718-6913

Any party may change its representative by written notice to the others.

8.2 Authority of Representative

The parties' representatives designated in ARTICLE 8, SECTION 8.1 shall have full authority to act for their respective principals in all technical matters relating to the performance of this Agreement. They shall not, however, have the authority to amend, modify, or waive any provision of this Agreement unless they are authorized officers of their respective entities.

ARTICLE 9. LIABILITY, INDEMNIFICATION, AND RELATIONSHIP OF PARTIES

9.1 Limitation on Consequential, Incidental and Indirect Damages

To the fullest extent permissible by law, neither NECO nor Seller, nor their respective officers, directors, agents, employees, parent or affiliates, successor or assigns, or their respective officers, directors, agents, or employees, successors, or assigns, shall be liable to the other party or its parent, subsidiaries, affiliates, officers, directors, agents, employees, successors or assigns, for claims, suits, actions or causes of action for incidental, indirect, special, punitive, multiple or consequential damages (including attorney's fees or litigation costs) connected with or resulting from performance or non-performance of this Agreement, or any actions undertaken in connection with or related to this Agreement, including without limitation any such damages which are based upon causes of action for breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, Rhode Island Gen. Laws Title 6, c. 13.1, statute, operation of law, or any other theory of recovery. The provisions of this SECTION 9.1 shall apply regardless of fault and shall survive termination, cancellation, suspension, completion or expiration of this Agreement.

9.2 Recovery of Direct Damages Permitted

Notwithstanding the provisions of ARTICLE 9, SECTION 9.1, subject to the duty to mitigate damages as provided under common law of damages recovery, both NECO and Seller shall be entitled to recover their actual, direct damages (i) incurred as a result of the other party's breach of this Agreement or (ii) incurred as a result of any other claim arising out of any action undertaken in connection with or related to this Agreement. For purposes of avoiding any disputes about the difference between direct damages and consequential damages, the parties agree as follows:

- (a) (1) To the extent that NECO is found to be in breach of this Agreement or liable under another cause of action; and
- (2) as a result of such breach or event giving rise to the cause of action, Seller suffers loss of profits that Seller reasonably expected to have received from NECO under this Agreement had NECO performed under this Agreement; then

- (3) Seller shall be entitled to recover any lost profits that Seller can demonstrate it lost or will lose as a result of NECO's breach, subject to the duty to mitigate.
- (b)
 - (1) To the extent that Seller fails to provide NECO Wholesale Standard Offer Service Power under the terms of this Agreement; and
 - (2) as a result, Seller is found to be in material breach of this Agreement or liable under another cause of action; and
 - (3) subject to the duty to mitigate, NECO purchases (as a result of Seller's failure) power from a third party at a price that is higher than what NECO would have paid under the terms of this Agreement, NECO may recover the difference between the price NECO paid to such third party and the price it would have paid had Seller performed; provided, however, Seller shall not be liable to NECO for lost profits associated with any expected revenue streams from the sale of power to third parties or lost profits from any other contracts or sales.
- (c) Except as provided in paragraphs (a) and (b) above, neither NECO nor Seller shall be liable to the other for lost profits arising out of performance, or non-performance of this Agreement, whether such lost profits may be categorized as direct, incidental, indirect, or consequential damages and irrespective of whether such claims are based upon warranty, tort, strict liability, contract, statute (including R.I. G.L. Title 6, c. 13.1), operation of law or otherwise.

9.3 Indemnification

- (a) Seller agrees to defend, indemnify and save NECO, its officers, directors, employees, agents, successors, assigns, and Affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by Seller, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of NECO or their successors or assigns.
- (b) NECO agrees to defend, indemnify and save Seller, its officers, directors, employees, agents, successors, assigns, and affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by NECO, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of Seller or their successors or assigns.

(c) If any party intends to seek indemnification under this ARTICLE from the other party with respect to any action or claim, the party seeking indemnification shall give the other party notice of such claim or action within fifteen (15) days of the commencement of, or actual knowledge of, such claim or action. Such party seeking indemnification shall have the right, at its sole cost and expense, to participate in the defense of any such claim or action. The party seeking indemnification shall not compromise or settle any such claim or action without the prior consent of the other party, which consent shall not be unreasonably withheld.

9.4 Independent Contractor Status

Nothing in this Agreement shall be construed as creating any relationship between NECO and Seller other than that of independent contractors for the sale and purchase of electricity provided as Wholesale Standard Offer Service.

ARTICLE 10. ASSIGNMENT

10.1 Assignment

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto, including by operation of law without the prior written consent of the other party, nor is this Agreement intended to confer upon any other Person except the parties hereto any rights or remedies hereunder. Notwithstanding the foregoing, (i) NECO may, without Seller's prior written consent, (A) assign all or a portion of its rights and obligations under this Agreement to any Affiliate of NECO or (B) assign its rights and obligations hereunder, or transfer such rights and obligations by operation of law, to any corporation or other entity with which or into which NECO shall merge or consolidate or to which NECO shall transfer all or substantially all of its assets, provided that such Affiliate or other entity agrees to be bound by the terms thereof; provided, in either case, that the assignee or transferor shall have senior securities rated investment grade or better; (ii) the Seller may assign all of its rights and obligations hereunder to any wholly owned Subsidiary (direct or indirect) of PG&E Corporation and upon NECO's receipt of notice from Seller of any such assignment, the Seller will be released from all liabilities and obligations hereunder, accrued and unaccrued, such assignee will be deemed to have assumed, ratified, agreed to be bound by and perform all such liabilities and obligations, and all references herein to "Seller" shall thereafter be deemed references to such assignee, in each case without the necessity for further act or evidence by the parties hereto or such assignee; provided, however, that no such assignment and assumption shall release the Buyer from its liabilities and obligations hereunder unless the assignee shall have acquired all or substantially all of the Buyer's assets; provided, further, however, that no such assignment and assumption shall relieve or in any way discharge PG&E Corporation from the performance of its duties and obligations under the Guaranty dated as of the date of this Agreement executed by PG&E Corporation,

and (iii) the Seller or its permitted assignee may assign, transfer, pledge or otherwise dispose of its rights and interests hereunder to a trustee or lending institution(s) for the purposes of financing or refinancing the Purchased Assets, including upon or pursuant to the exercise of remedies under such financing or refinancing, or by way of assignments, transfers, conveyances or dispositions in lieu thereof; provided, however, that no such assignment or disposition shall relieve or in any way discharge the Seller or such assignee from the performance of its duties and obligations under this Agreement. NECO agrees to execute and deliver such documents as may be reasonably necessary to accomplish any such assignment, transfer, conveyance, pledge or disposition of rights hereunder so long as NECO's rights under this Agreement are not thereby altered, amended, diminished or otherwise impaired.

ARTICLE 11. SUCCESSORS AND ASSIGNS

This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective permitted successors and assigns.

ARTICLE 12. FORCE MAJEURE

12.1 Force Majeure Standard

The parties shall be excused from performing their respective obligations hereunder and shall not be liable in damages or otherwise, if and only to the extent that they are unable to so perform or are prevented from performing by an event of force majeure.

12.2 Force Majeure Definition

An event of force majeure includes, without limitation, storm, flood, lightning, drought, earthquake, fire, explosion, equipment failure, civil disturbance, labor dispute, act of God or the public enemy, action of a court or public authority, or any other cause beyond a party's control, but only if and to the extent that the event directly affects the availability of the transmission or distribution facilities of NEPOOL, NECO or an Affiliate necessary to deliver Wholesale Standard Offer Service to NECO's customers. Events affecting the availability or cost of operating any generating facility shall not be events of force majeure.

12.3 Obligation to Diligently Cure Force Majeure

If any party shall rely on the occurrence of an event or condition described in ARTICLE 12, SECTION 12.2, above, as a basis for being excused from performance of its obligations under this Agreement, then the party relying on the event or condition shall:

- a. provide written notice to the other parties promptly but in no event later than 5 days of the occurrence of the event or condition giving an

estimation of its expected duration and the probable impact on the performance of its obligations hereunder;

- b. exercise all reasonable efforts to continue to perform its obligations hereunder;
- c. expeditiously take reasonable action to correct or cure the event or condition excusing performance; provided that settlement of strikes or other labor disputes will be completely within the sole discretion of the party affected by such strike or labor dispute;
- d. exercise all reasonable efforts to mitigate or limit damages to the other parties to the extent such action will not adversely affect its own interests; and
- e. provide prompt notice to the other parties of the cessation of the event or condition giving rise to its excuse from performance.

ARTICLE 13. WAIVERS

The failure of either party to insist in any one or more instance upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights under this Agreement shall not be construed as a general waiver of any such provision or the relinquishment of any such right, but the same shall continue and remain in full force and effect, except with respect to the particular instance or instances.

ARTICLE 14. REGULATION

14.1 Laws and Regulations

This Agreement and all rights, obligations, and performances of the parties hereunder, are subject to all applicable Federal and state laws, and to all duly promulgated orders and other duly authorized action of governmental authority having jurisdiction.

14.2 NEPOOL Requirements

This Agreement must comply with all NEPOOL Criteria, Rules, and Standard Operating Procedures ("Rules"). If, during the term of this Agreement, the NEPOOL Agreement is terminated or amended in a manner that would eliminate or materially alter a Rule affecting a right or obligation of a party hereunder, or if such a Rule is eliminated or materially altered by NEPOOL, the parties agree to negotiate in good faith in an attempt to amend this Agreement to incorporate a replacement Rule ("Replacement Rule"). The intent of the parties is that any such Replacement Rule reflect, as closely as possible, the intent and

substance of the Rule being replaced as such Rule was in effect prior to such termination or amendment of the NEPOOL Agreement or elimination or alteration of the Rule. If the parties are unable to reach agreement on such an amendment, the parties agree to submit the matter to arbitration under the terms of Appendix C, attached and incorporated herein by reference, and to seek a resolution of the matter consistent with the above stated intent.

ARTICLE 15. INTERPRETATION, DISPUTE RESOLUTION

15.1 Interpretation

The interpretation and performance of this Agreement shall be in accordance with and controlled by the laws of The State of Rhode Island.

15.2 Dispute Resolution

All disputes between NECO and Seller arising out of or relating to this Agreement which are defined as "Arbitrable Claims" in SECTION 2 of Appendix C, attached and incorporated herein by reference, shall be resolved by binding arbitration and be governed by the terms of such Arbitration Agreement. Any arbitration of an Arbitrable Claim that is substantially related to an arbitrable claim under a Wholesale Standard Offer Service Agreement among Seller, Massachusetts Electric Company, and Nantucket Electric Company shall be conducted jointly with the arbitration of the latter claim, before the same panel of arbitrators, with NECO, Massachusetts Electric Company, and Nantucket Electric Company jointly exercising their rights regarding the selection of arbitrators. Any decisions of the arbitrators shall be final and binding upon the parties.

ARTICLE 16. SEVERABILITY

If any provision or provisions of this Agreement shall be held invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

ARTICLE 17. MODIFICATIONS

No modification to this Agreement will be binding on any party unless it is in writing and signed by all parties.

ARTICLE 18. SUPERSESSION

This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and its execution supersedes any other agreements, written or oral, between the parties concerning such subject matter.

ARTICLE 19. COUNTERPARTS

This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.

ARTICLE 20. HEADINGS

Article and Section headings used throughout this Agreement are for the convenience of the parties only and are not to be construed as part of this Agreement.

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

THE NARRAGANSETT ELECTRIC
COMPANY

BY: 

Its V.P. E. Lesseur

USGEN ACQUISITION CORPORATION

BY: _____

Its _____

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

THE NARRAGANSETT ELECTRIC
COMPANY

BY: _____

Its _____

USGEN ACQUISITION CORPORATION

BY: Joseph P. Kearney

Its President

**Appendix A. Incremental Revenues
From NECO Customer Rate Fuel Adjustment**

In the event of substantial increases in the market prices of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999, incremental revenues received by NECO as a result of NECO's Customer Rate Fuel Adjustment, described below, will be fully allocated among suppliers of Wholesale Standard Offer Service Power in proportion to the percentage of NECO's total Standard Offer Service requirements during the month that such supplier delivers under its respective agreement with NECO.

NECO's Customer Rate in effect for a given billing month is multiplied by a "Fuel Adjustment" that is set equal to 1.0 and thus has no impact on the Customer Rate unless the "Market Gas Price" plus "Market Oil Price" for the billing month exceeds the "Fuel Trigger Point" then in effect, where:

The NECO Customer rate for retail customers who elect Standard Offer Service by choice or inaction is the following predetermined, flat rate for energy consumed:

<u>Calendar Year</u>	<u>Price per Kilowatt hour</u>
1998	3.2 cents
1999	3.5 cents
2000	3.8 cents
2001	3.8 cents
2002	4.2 cents
2003	4.7 cents
2004	5.1 cents
2005	5.5 cents
2006	5.9 cents
2007	6.3 cents
2008	6.7 cents
2009	7.1 cents

Market Gas Price is the average of the values of "Gas Index" for the most recent available twelve months, where:

Gas Index is the average of the daily settlement prices for the last three days that the NYMEX Contract (as defined below) for the month of delivery trades as reported in the "Wall Street Journal", expressed in dollars per MMBtu. NYMEX Contract shall mean the New York Mercantile Exchange Natural Gas Futures Contract as approved by the Commodity Futures Trading Commission for the purchase and sale of natural gas at Henry Hub;

Market Oil Price is the average of the values of "Oil Index" for the most recent available twelve months, where:

Oil Index is the average for the month of the daily low quotations for cargo delivery of 1.0% sulphur No. 6 residual fuel oil into New York harbor, as reported in "Platt's Oilgram U.S. Marketscan" in dollars per barrel and converted to dollars per MMBtu by dividing by 6.3; and

If the indices referred to above should become obsolete or no longer suitable, NECO shall file alternate indices with the RIPUC.

Fuel Trigger Point is the following amounts, expressed in dollars per MMBtu, applicable for all months in the specified calendar year:

2000	\$5.35/MMBtu
2001	\$5.35
2002	\$6.09
2003	\$7.01
2004	\$7.74
2005	\$8.48
2006	\$9.22
2007	\$9.95
2008	\$10.69
2009	\$11.42

In the event that the Fuel Trigger Point is exceeded, the Fuel Adjustment value for the billing month is determined based according to the following formula:

$$\text{Fuel Adjustment} = \frac{(\text{Market Gas Price} + \$0.60/\text{MMBtu}) + (\text{Market Oil Price} + \$0.04/\text{MMBtu})}{\text{Fuel Trigger Point} + \$0.60 + \$0.04/\text{MMBtu}}$$

Where:

Market Gas Price, Market Oil Price and Fuel Trigger Point are as defined above. The values of \$.60 and \$.04/MMBtu represent for gas and oil respectively, estimated basis differentials or market costs of transportation from the point where the index is calculated to a proxy power plant in the New England market.

For example if at a point in the year 2002 the Market Gas Price and Market Oil Price total \$6.50 (\$3.50/MMBtu plus \$3.00/MMBtu respectively), the Fuel Trigger Point of 6.09 would be exceeded. In this case the Fuel Adjustment value would be:

$$\frac{(\$3.50 + \$.60/\text{MMBtu}) + (\$3.00 + \$.04/\text{MMBtu})}{\$6.09 + \$.60 + \$.04/\text{MMBtu}} = 1.0609$$

The Customer Rate paid to NECO is increased by this Fuel Adjustment factor for the billing month, becoming 4.4548¢/kWh (4.2×1.0609).

In subsequent months the same comparisons are made and, if applicable, a Fuel Adjustment determined.

Appendix B. Estimation of Supplier Hourly Loads

Overview

Generating units operated by suppliers are dispatched by the power pool to meet the region's electrical requirements reliably, and at the lowest possible cost. As a result, a supplier's electricity production may not match the demand of its customers. In each hour some suppliers with low cost production units are net sellers of electricity to the pool, while other suppliers are purchasing power from the pool to meet the demand of their customers. To determine the extent to which suppliers are net buyers or sellers on an hourly basis, it is necessary to estimate the hourly aggregate demand for all of the customers served by each supplier ("own-load"). NECO will estimate Seller's Wholesale Standard Offer Service "own-load" within NECO's service territory and report the hourly results to NEPOOL or the ISO on a daily basis.

The estimation process is a cost effective approach to producing results that are reliable, unbiased and reasonably accurate. The hourly load estimates will be based on rate class load profiles which will be developed from statistically designed samples. Each day, the class load shapes will be scaled to the population of customers served by each supplier contracting with NECO as a result of the Standard Offer Auction ("Standard Offer Auction Supplier"), Seller, and any other entity providing Wholesale Standard Offer Service. In cases where telemetered data on individual customers are available, they will be used in place of the estimated shapes. On a monthly basis, the estimates will be refined by incorporating actual usage data obtained from meter readings. In both processes, the sum of all suppliers' estimated Standard Offer Service loads will match the total load delivered into the distribution system. A description of the estimation process follows.

Daily Estimation of Suppliers' Own Load

The daily process estimates the hourly load for each Standard Offer Auction Supplier, Seller, and any other entity providing Wholesale Standard Offer Service, for the previous day. There are four components in this process:

- Select a proxy date from the previous year with characteristics which best match the day for which the hourly demand estimates are being produced. Extract class load shapes for the selected proxy date from the load research data base.
- Scale the class load shapes appropriately for each individual customer based on the usage level of the customer relative to the class average usage level.
- Calculate a factor for each customer which reflects their relative usage level and includes an adjustment for losses ("load adjustment factor"). Aggregate the load adjustment factors across the customers served by each supplier in each class.

- Produce a preliminary estimate of each supplier's hourly loads by combining the proxy day class load shapes with the supplier's total load adjustment factors. Aggregate the loads across the classes for each supplier.
- Adjust the preliminary hourly supplier estimates so that their sum is equal to NECO's actual hourly metered loads (as metered at the point of delivery to the distribution system) by allocating any differences to suppliers in proportion to their estimated load.

Monthly Reconciliation Process

The monthly process will improve the estimates of Standard Offer Service supplier loads by incorporating the most recent customer usage information, which will be available after the monthly meter readings are processed. A comparison will be made between customers' estimated and actual usage, by billing cycle, then summed across billing cycles for each supplier. The ratio between the actual kWh and the estimated kWh reflects the kWh amount for which the supplier may have been overcharged or undercharged by NEPOOL or the ISO during the month. This ratio will be used to develop a kWh adjustment amount for each supplier for the calendar month. The sum of the adjustments will be zero because the total kWh will still be constrained to equal NECO's actual hourly metered Standard Offer Service loads during the month.

Appendix C. Arbitration Agreement

ARBITRATION AGREEMENT

This Arbitration Agreement, dated as of _____ (date of Wholesale Standard Offer Service Agreement), is entered into between The Narragansett Electric Company, a Rhode Island corporation ("NECO") and _____, a _____ (describe entity) ("Seller"). Reference is made to that certain Wholesale Standard Offer Service Agreement dated as of _____, 199__ (the "Service Agreement") between NECO and Seller. Unless otherwise specified or apparent from the context of this Arbitration Agreement, the term "Party" shall mean either NECO or Seller, or both of them.

WHEREAS, NECO and Seller wish to avoid the burden, time, and expense of court proceedings with respect to any disputes that may arise from or relate to the Service Agreement, and to submit such disputes to mandatory binding arbitration if they cannot first be resolved through negotiation and mediation.

NOW, THEREFORE, NECO and SELLER AGREE AS FOLLOWS:

1. Mediation

Before resorting to mediation or arbitration under this Arbitration Agreement, the Parties will try to resolve promptly through negotiation any Arbitrable claim, as defined below. If the Arbitrable Claim has not been resolved through negotiation within ten (10) days after the existence of the Arbitrable Claim has been brought to the attention of the other Party in a writing, any Party may request in writing to resolve the Arbitrable Claim through mediation conducted by a mediator selected by agreement of the Parties. The mediation procedure shall be determined by the Parties in consultation with the mediator. Any mediation pursuant hereto shall be kept confidential. The fees and expenses of the mediator shall be borne equally by the Parties. If the Parties are unable to agree upon the identity of a mediator or a mediation procedure within ten (10) days after a Party has requested mediation in writing or if the Arbitrable Claim has not been resolved to the satisfaction of either NECO or Seller within forty (40) days after the Parties have selected a mediator and agreed upon a mediation procedure, either Party may invoke arbitration pursuant to the following sections by notifying the other Party of such selection in writing consistent with Section 3(c), below.

2. Mandatory Arbitration

(a) Except as provided in paragraph (b) of this Section 2 and in Section 8, below, any case, controversy or claim arising out of or relating to the Service Agreement, its breach, or any other disputes arising out of the business relationship created by the Service Agreement, of whatever nature, including but not limited to any claim based in contract, in law, in equity, any statute, regulation, or theory of law now in existence or which may come

into existence in the future, whether known or unknown, including without limitation, claims based upon deceit, fraudulent inducement, misrepresentation, 18 U.S.C §§1962 and 1964 (RICO), and R.I. G.L. Title 6, c. 13.1, the federal and state antitrust laws (collectively, the "Arbitrable Claims"), which cannot be resolved by negotiation or mediation, as provided in Section 1 above, shall be submitted to mandatory, binding, and final arbitration in accordance with procedures set forth in this Agreement, which shall constitute the exclusive remedy for any and all Arbitrable Claims.

(b) Notwithstanding paragraph (a) above, physical accidents or events giving rise to negligence or intentional tort claims for the recovery of property damages and/or damages for personal injury and failure to make payments due under Section 5.2 of the Service Agreement shall not be considered "Arbitrable Claims." However disputes regarding the interpretation or scope of any indemnification clauses in the Service Agreement shall be subject to arbitration, even if the dispute relates to whether one Party must indemnify the other for property damages and/or damages for personal injury, the recovery of which was or will be determined in a court of law.

(c) Each Party agrees that it will not attempt to circumvent this Arbitration Agreement by coordinating or cooperating with their respective parent companies or affiliates or guarantors in the filing of a legal action in the name of any of the parent companies or affiliates or guarantors of the Parties to this Arbitration Agreement regarding claims that otherwise are subject to this Arbitration Agreement. Any Party failing to comply with this provision shall indemnify the other Party against, and hold the other harmless from, the costs (including reasonable litigation costs) incurred by the other in defending any and all claims brought by a parent company or affiliate or guarantor of the other in a court of law regarding claims that otherwise would be Arbitrable Claims under this Arbitration Agreement.

3. Selection and Qualification of Arbitrators

(a) Any arbitration shall be conducted by a panel of three neutral arbitrators, consisting of (i) a practicing lawyer admitted to practice in the Commonwealth of Massachusetts; (ii) a person with professional experience in and substantial knowledge of the power generation industry in any one or more of the New England States, who may be, but need not be a lawyer, and (iii) a person with professional experience in and substantial knowledge of power markets in any one or more of the New England States, who may, but need not be, a lawyer (collectively, the "Arbitration Panel"). For purposes of this Arbitration Agreement, an arbitrator or candidate shall be considered "neutral" only if the arbitrator or candidate has not previously served as an arbitrator for a Party or one of its affiliates or guarantors and is not a present or former lawyer, employee or consultant of a Party or any of its affiliates or guarantors.

(b) Any Party entitled to commence arbitration hereunder shall do so by serving a written Notice of Arbitration briefly describing the Arbitrable Claims and the Agreements under which they are brought. Service of such Notice of Arbitration shall be complete upon receipt by the person designated for each party at the addresses specified in Section 12 below.

(c) Within twenty (20) days after service of a Notice of Arbitration, each Party shall serve upon the other Party a list of seven neutral candidates for each of the three panel members described in subparagraph (a) above.

(d) Within twenty (20) days after service of the lists referred to in subparagraph (c), NECO and Seller shall then strike from the other's lists any two candidates from each of the lists, for any reason whatsoever. For the remaining candidates each Party shall rank each candidate on its three lists from one to five and shall do the same for the other Party's lists.

(e) The candidates in each of the three categories with the lowest total score shall be invited to serve as panel members. In the event that the candidate in any of the three categories with the lowest total score is unable or unwilling to serve, or has a potential conflict of interest not consented to by each Party, then the candidate with the next lowest score in that category shall be invited to serve, subject to full disclosure by each candidate of, and consent by each Party to any potential conflicts of interests. This process shall be repeated until a full arbitration Panel is selected or the list of candidates for that category is exhausted. If the list of candidates for a category is exhausted the Parties shall exchange a new list of candidates for that category and the procedures set forth above shall be repeated a second time.

(f) If the parties cannot select a full Arbitration Panel in accordance with these procedures than any Party may request that a court of competent jurisdiction appoint the remaining members subject to their qualifications, willingness and ability to serve as provided above.

(g) The American Arbitration Association shall be appointed to facilitate and administer the parties' compliance with the procedures set forth above.

4. Time Schedule

The Arbitration shall be conducted as expeditiously as possible. The Arbitration Panel shall schedule a pre-hearing conference and hearings as it deems advisable and shall use its best efforts to schedule consecutive days of hearings. Hearings shall be limited to a total of ten (10) days. The Arbitration Panel shall issue its final decision and award within thirty (30) days of the close of the hearings, which shall be accompanied by a written, reasoned opinion.

5. Remedies

(a) The Arbitration Panel shall not award punitive or multiple damages or any other damages not measured by the prevailing Party's actual damages - except that the Arbitration Panel, in its sole discretion, may shift all or a portion of the costs of the Arbitration to any Party.

(b) Any award of damages by the Arbitration Panel shall be determined, limited and controlled by the damages limitation clauses of the Service Agreement applicable to the dispute before the Arbitration Panel.

(c) The Arbitration Panel may, in its discretion, award pre-award and post-award interest on any damages award; provided, however, that the rate of pre-award or post-award interest shall not exceed a rate equal to the rate provided for post-judgment interest by 28 U.S.C. § 1961 as published from time to time by the Administrative Office of the United States Courts based on the equivalent coupon issue yield for auctions of 52-week Treasury bills.

6. Confidentiality

The existence, contents, or results of any mediation or arbitration hereunder may not be disclosed without the prior written consent of both Parties; provided, however, either Party may make disclosures as may be necessary to fulfill regulatory obligations to any regulatory bodies having jurisdiction, and may inform their lenders, affiliates, auditors and insurers, as necessary, under pledge of confidentiality and can consult with experts as required in connection with the arbitration under pledge of confidentiality. If any Party seeks preliminary injunctive relief from any court to preserve the status quo or avoid irreparable harm pending mediation or arbitration, the Parties agree to use best efforts to keep the court proceedings confidential, to the maximum extent permitted by law.

7. FERC Jurisdiction over Certain Disputes

(a) Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, any Party from filing a petition or complaint with the Federal Energy Regulatory Commission ("FERC") with respect to any Arbitrable Claim. In such case, the other Party may request FERC to reject or to waive jurisdiction. If the FERC rejects or waives jurisdiction, with respect to all or a portion of the claim, the portion of the claim not so accepted by FERC shall be resolved through arbitration, as provided in this Arbitration Agreement. To the extent that FERC asserts or accepts jurisdiction over the claim, the decision, finding of fact, or order of FERC shall be final and binding, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings.

(b) The Arbitration Panel shall have no authority to modify, and shall be conclusively bound by, any decision, finding of fact, or order of FERC. However, to the extent that a decision finding of fact, or order of FERC does not provide a final or complete remedy to the Party seeking relief, such Party may proceed to arbitration under this Arbitration Agreement to secure such remedy, subject to the FERC decision, finding or order.

8. Preliminary Injunctive Relief

Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, the resort by either Party to a court of competent jurisdiction solely for the purposes of securing a temporary or preliminary injunction to preserve the status quo or avoid irreparable harm pending mediation or arbitration pursuant to this Arbitration Agreement.

9. Governing Law

This Arbitration Agreement shall be construed, enforced in accordance with, and governed by, the laws of the State of Rhode Island.

10. Location of Arbitration

Any arbitration hereunder shall be conducted in Boston, Massachusetts.

11. Severability

If any section, subsection, sentence, or clause of this Arbitration Agreement is adjudged illegal, invalid, or unenforceable, such illegality, invalidity, or enforceability shall not affect the legality, validity, or enforceability of the Arbitration Agreement as a whole or of any section, subsection, sentence or clause hereof not so adjudged.

12. Notices

Any notices required to be given pursuant to this Arbitration Agreement shall be in writing and sent to the receiving party by (i) certified mail, return receipt requested, (ii) overnight delivery service, or (iii) facsimile transmission (confirmed by telephone), addressed to the receiving party at the address shown below or such other address as a party may subsequently designate in writing. Any such notice shall be deemed to be given (i) three days after deposit in the United States mail, if sent by mail, (ii) when actually received if sent by overnight delivery service, or (iii) when sent, if sent by facsimile and confirmed by telephone.

If to NECO: The Narragansett Electric Company
25 Research Drive
Westborough, Massachusetts 01582
Attention: General Counsel
Facsimile: (508) 389-2463

If to Seller

Attention: _____
Facsimile: () _____

In addition, the parties shall send copies of any notices required by the terms of any of the Agreements, in accordance with the terms of each Agreement.

IN WITNESS WHEREOF, Each Party has caused its duly authorized officers to execute this Arbitration Agreement on the dates set forth below.

THE NARRAGANSETT ELECTRIC COMPANY

BY: _____

Its _____

USGEN ACQUISITION CORPORATION

BY: _____

Its _____

**AMENDED AND RESTATED
WHOLESALE STANDARD OFFER SERVICE AGREEMENT**

**WHOLESALE STANDARD OFFER
SERVICE AGREEMENT**

between

THE NARRAGANSETT ELECTRIC COMPANY

and

USGEN NEW ENGLAND, INC.

Dated as of October 29, 1997

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AMENDED AND RESTATED WHOLESALE STANDARD OFFER SERVICE AGREEMENT

This **AMENDED AND RESTATED WHOLESALE STANDARD OFFER SERVICE AGREEMENT** ("Agreement") is dated as of October 29, 1997 and is by and between **THE NARRAGANSETT ELECTRIC COMPANY**, a Rhode Island corporation ("NECO"), and **USGen New England, Inc.** (formerly named **USGen Acquisition Corporation**), a Delaware corporation ("Seller"), and amends and restates and, together with the **NECO Wholesale Standard Offer Service Agreement II** dated as of the date hereof between **NECO** and **Seller**, supersedes in its entirety the **Wholesale Standard Offer Service Agreement** dated as of August 5, 1997 between **NECO** and **Seller**. This Agreement provides for the purchase by **NECO** and the sale by **Seller** of **Wholesale Standard Offer Service**, as defined in this Agreement.

ARTICLE 1. BASIC UNDERSTANDINGS

NECO purchases all of its requirements of electricity for resale to its retail electric customers from its affiliate, **New England Power Company** ("**NEP**").

NEP, **NECO** and other parties have entered into an agreement in settlement of regulatory proceedings before the Federal Energy Regulatory Commission (the "**Rhode Island Restructuring Agreement**") that, among other things, implements certain requirements of the **Rhode Island Utility Restructuring Act of 1996** (the "**Act**"), permits **NECO** to terminate wholesale purchases from **NEP**, permits current retail customers of **NECO** to purchase electricity from other suppliers on and after a date defined therein as the "**Retail Access Date**," or, for a limited time, to purchase **Standard Offer Service** from **NECO**, obligates **NEP** to supply **NECO** with power sufficient to meet the latter's obligations to supply **Standard Offer Service**, and obligates **NEP** to transfer its interests in the electric generating business to another party or parties.

NEP, **NECO**, and **Seller** have entered an agreement under which **Seller** will acquire certain **NEP** and **NECO** generating assets.

NEP and **Seller** desire that **Seller** shall supply electric capacity and energy to **NECO** to fulfill a portion of **NEP**'s power supply obligations under the **Rhode Island Restructuring Agreement**.

Under the **Rhode Island Restructuring Agreement**, **NECO** is obligated to afford wholesale power suppliers other than **NEP** the opportunity to commit to supply **NECO** with power sufficient to meet **NECO**'s obligation to supply retail **Standard Offer Service** after the **Retail Access Date**.

This Agreement sets forth the terms under which Seller will supply Wholesale Standard Offer Service to NECO, for a period beginning on the Closing Date, to enable NECO to meet the needs of its retail customers for electricity, including all or a portion of the needs of customers receiving retail Standard Offer Service after the Retail Access Date.

ARTICLE 2. DEFINITIONS

The following words and terms shall be understood to have the following meanings when used in this Agreement, or in any associated documents entered into in conjunction with this Agreement. In addition, except as otherwise expressly provided, where terms used in this Agreement are defined in the NEPOOL Agreement and not otherwise defined herein, such definitions are expressly incorporated into this Agreement by reference.

Affiliate of NECO - Any company that is a subsidiary of New England Electric System and its successors.

Closing Date - The date upon which the Seller acquires ownership of generating assets it purchases from NEP.

Commission or FERC - The Federal Energy Regulatory Commission or such successor federal regulatory agency as may have jurisdiction over this Agreement.

Contract Termination Date - The date established by the Rhode Island Restructuring Agreement when the respective obligations of NEP and NECO under NEP's FERC Electric Tariff, Original Volume No. 1, to sell and purchase wholesale electric requirements service shall cease. The Contract Termination Date shall occur on the earlier of the Retail Access Date or the Wholesale Access Date.

GWh - Gigawatt hour.

ISO - The Independent System Operator to be established in accordance with the NEPOOL Agreement and the Interim Independent System Operator Agreement as amended, superseded or restated from time to time.

kWh - Kilowatt- hour.

MECO - Massachusetts Electric Company.

MECO Wholesale Standard Offer Service Agreement - The Wholesale Standard Offer Service Agreement of even date herewith between MECO and the Seller.

NECO's Service Territory - The geographic area in which NECO provided electric service to retail customers on August 6, 1996.

NECO's System - The electrical system of NECO and/or the electrical system of any Affiliate of NECO.

MMBtu - Million British thermal units.

NEP - New England Power Company, an Affiliate of NECO.

NEPEX - The New England Power Exchange.

NEPOOL - The New England Power Pool.

NEPOOL Agreement - The New England Power Pool Agreement dated as of September 1, 1971, as amended and as may be amended or restated from time to time.

Price - The price set forth in SECTION 5.1, below.

Prime Rate - The prime (or comparable) rate announced from time to time as its prime rate by the Bank of Boston or its successor, which rate may differ from the rate offered to its more substantial and creditworthy customers.

PTF - Facilities categorized as Pool Transmission Facilities under the NEPOOL Agreement.

Retail Access Date - The date so defined under the Rhode Island Restructuring Agreement, as the later of January 1, 1998, or the date of a final, nonappealable order of the RIPUC approving the divestiture plan for the disposition of NEP's non-nuclear generating facilities provided, however, that in any event the Retail Access Date shall occur no later than three (3) months after retail access is available to forty percent (40%) or more of the kilowatt hour sales in New England including the total kilowatt hour sales in Rhode Island.

Rhode Island Restructuring Agreement - The Offer of Settlement dated May 30, 1997, entered into by and among the RIPUC, the Rhode Island Division of Public Utilities and Carriers, NECO, and NEP, as amended and accepted or approved by the FERC.

RIPUC - The Rhode Island Public Utilities Commission.

Standard Offer Auction - The solicitation by NECO of offers from wholesale power suppliers, including, at their option, NEP and Seller, of electric energy and associated capacity and ancillary services necessary to meet the needs of ultimate customers of NECO eligible for and accepting retail Standard Offer Service on or after the Retail Access Date, and any wholesale electric supply contracts resulting from that solicitation. The solicitation and any contract(s) entered into as a result thereof shall not be on terms that are materially different from those described by MECO in the Massachusetts Restructuring Agreement (as defined in the MECO Wholesale Standard Offer Service Agreement), the RFQ dated April 3, 1997, and the letter to potential asset purchasers dated June 16, 1997, or result in a material adverse

impact on Seller. NECO shall not, without Seller's consent, conduct the Standard Offer Auction more than once or more than six (6) months prior to the Retail Access Date, which date shall be as reasonably determined by NECO.

Standard Offer Service - The electric service provided by NECO pursuant to the Rhode Island Restructuring Agreement: (i) to retail customers in NECO's Service Territory during the period, if any, during the term of this Agreement preceding the Retail Access Date; and (ii) to NECO's retail customers on the Retail Access Date that do not elect to obtain their electric supply from an alternative supplier on or after the Retail Access Date through December 31, 2009.

Wholesale Access Date - The date so defined under the Rhode Island Restructuring Agreement, as the date on which NECO in its sole discretion decides to terminate its purchase from NEP of wholesale requirements service pursuant to NEP's FERC Electric Tariff, Original Volume No. 1, by providing the Commission and the Signatories to the Rhode Island Restructuring Agreement with 90 days advance notice in writing, said date not to be earlier than January 1, 1998.

Wholesale Standard Offer Service - The generation and delivery, to any location on the NEPOOL PTF system or NECO's system, of the portion of the electric capacity, energy and ancillary services required by NECO to meet the needs of NECO's ultimate customers taking Standard Offer Service, excluding, after the Retail Access Date, any portion of such requirements that NECO has contracted to obtain through the Standard Offer Auction, determined in accordance with ARTICLE 4. Seller, as the supplier of Wholesale Standard Offer Service capacity and energy, will be responsible for all present, or future requirements and associated costs for installed capability, operable capability, energy, operating reserves, and automatic generation control, including tie benefit payments, losses and any congestion charges associated with Seller's supply of Wholesale Standard Offer Service and any other requirements imposed by NEPOOL or the ISO, as they may be in effect from time to time. To the extent that any NEPOOL, ISO or any successor entity expenses or uplift costs are allocated to wholesale suppliers, the portion of such costs associated with Seller's supply of Standard Offer Service will also be the responsibility of Seller. To the extent any costs contemplated by this paragraph are applicable to NECO and recoverable by NECO from its customers, NECO shall be responsible for such costs.

ARTICLE 3. TERM AND REGULATORY APPROVAL

3. Term

The term of this Agreement shall begin at 12:01 am on the Closing Date and continue until the earlier of: (a) 11:59 pm on December 31, 2009; or (b) the first date that NECO has no requirements for electric capacity and energy to supply Standard Offer Service that are not satisfied by contracts resulting from the Standard Offer Auction.

3.2 Obtaining and Maintaining Required Permits

(a) Performance under this Agreement is conditioned upon both Parties securing and maintaining such federal, state or local approvals, grants or permits as may be necessary for the sale and purchase of Wholesale Standard Offer Service, which shall not include any approvals, grants, or permits necessary for the operation of any particular generating facility. Each Party shall use reasonable efforts to acquire and maintain such approvals, grants or permits. If the acquisition or maintenance of a particular approval, grant, or permit requires a modification to this Agreement, then the Parties agree to negotiate in good-faith to reach a mutually agreeable modification of the Agreement. The Parties are not required to reach such a mutually acceptable modification.

(b) Seller will file this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) in accordance with the provisions of applicable laws, rules and regulations. Seller will be responsible for any filing fees for filing this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) and for any regulatory assessments associated with sales under this Agreement. FERC approval of this Agreement shall be a condition to the obligations of the Parties hereunder.

ARTICLE 4. SALE AND PURCHASE

Seller shall sell and deliver to the Delivery Points, as defined in ARTICLE 6, SECTION 6.1, and NECO shall purchase 90.78% of NECO's requirements for Wholesale Standard Offer Service. NECO's requirements for Wholesale Standard Offer Service shall be determined on the basis of ARTICLE 6, SECTION 6.3, below, and the price for such sale and purchase shall be as set forth in ARTICLE 5, SECTION 5.1, below.

ARTICLE 5. PRICE AND BILLING

5.1 Price

For each kilowatt hour of Wholesale Standard Offer Service that Seller delivers to the Delivery Points, in accordance with ARTICLE 6, SECTION 6.3, below, NECO shall pay Seller a price equal to the following amounts for each period during the term of this Agreement:

Period	Price in Cents per kWh
1998	3.2 Cents
1999	3.5 Cents
2000	3.8 Cents
2001	3.8 Cents
2002	4.2 Cents
2003	4.7 Cents
2004	5.1 Cents
2005	5.5 Cents
2006	5.9 Cents
2007	6.3 Cents
2008	6.7 Cents
2009	7.1 Cents

In addition, in the event of increases in the market price of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999 as described in Appendix A, NECO shall pay Seller a percentage of any incremental revenues received by NECO as a result of NECO's Customer Rate Fuel Adjustment, described in Appendix A, attached and incorporated herein by reference. Such percentage, with respect to the billing month, shall equal the percentage of NECO's total Standard Offer Service requirements during the month that Seller delivers under this Agreement.

5.2 Payment

(a) On or before the tenth (10th) day of each month during the term of this Agreement, NECO shall: (i) calculate the amount due and payable to Seller pursuant to this ARTICLE 5 with respect to the preceding month; and (ii) advise Seller of the schedule upon which it shall pay the amount so calculated, which schedule shall comply with paragraph (b), below. The amount payable shall be calculated by multiplying the Price specified in the first paragraph of ARTICLE 5, SECTION 5.1, above, for the applicable Contract Period by the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points for NECO's Standard Offer Service customers in the month, as determined in accordance with ARTICLE 6, SECTION 6.3, below. Because quantities determined under SECTION 6.3 are estimated, subject to a reconciliation process described in SECTION 6.3(d), quantities used in calculations under this paragraph (a) shall be subject to adjustment, whether positive or negative, in subsequent months' calculations, to reflect that reconciliation process, and any adjusted quantities shall be applied to the Price applicable during the month of the calculation being adjusted. Seller's percentage of any Customer Rate Fuel Adjustment incremental revenue shall be added to such amount.

(b) NECO shall pay Seller any amounts due and payable on or before the twenty-fifth (25th) day after the date a calculation is made pursuant to paragraph (a), provided that, if and to the extent NECO pays Seller any portion of the amount due and payable before the twenty-fifth (25th) day after a calculation is made, it shall be entitled, without interest or penalty, to defer payment of an equal portion of the amount due and payable for that month by the lesser of: (i) the same number of days that the early payment preceded the twenty-fifth day after the calculation; and (ii) twenty-five (25) days. If all or any part of any amount due and payable pursuant to paragraph (a) shall remain unpaid thereafter, interest shall thereafter accrue and be payable to Seller on such unpaid amount at a rate per annum equal to two percent (2%) above the Prime Rate in effect on the date of such bill; provided, however, if the amount due and payable is disputed, interest shall accrue and be payable to Seller on the unpaid amount finally determined to be due and payable at a rate per annum equal to the Prime Rate in effect on the date of the calculation pursuant to paragraph (a); and provided, further, no interest shall accrue in favor of Seller or NECO on amounts that are added to or credited against a calculation due to the adjustment of estimated quantities in accordance with paragraph (a) and ARTICLE 6, SECTION 6.3.

(c) With respect to reconciliation adjustments pursuant to SECTION 6.3(d) or any error in a calculation (whether the amount is paid or not), any overpayment, underpayment, or reconciliation adjustment will be refunded or paid up, as appropriate. Interest shall accrue from the date of the error or adjustment on the unpaid or overpaid amount finally determined to be due and shall be calculated pursuant to Section 35.19a of the Commission regulations.

Taxes, Fees and Levies

Seller shall be obligated to pay all present and future taxes, fees and levies which may be assessed upon Seller by any entity upon the purchase or sale of electricity covered by the Agreement. To the extent such taxes, fees, and levies are allowed to be, and are actually, recoverable by NECO from its customers, NECO shall reimburse Seller for such taxes, fees, and levies paid by Seller. It is expressly agreed that Seller shall not be responsible for, and shall be held harmless from, the Rhode Island Tax on gross receipts or earnings (Public Service Corporation Tax, Chapter 44-13 of the Rhode Island General Laws, as amended or superseded).

ARTICLE 6. DELIVERY, LOSSES, AND DETERMINATION AND REPORTING OF HOURLY LOADS

6.1 Delivery

All electricity shall be delivered to NECO in the form of three-phase sixty-hertz alternating current at any location on the NEPOOL PTF system or NECO's System ("Delivery Points"). Title shall pass to NECO at the Delivery Point and Seller shall incur no expense or risk beyond the Delivery Point other than those described in SECTION 6.2. If the NEPOOL control area experiences congestion, Seller will be responsible for any congestion costs incurred in delivering power across the PTF system to NECO to the extent such costs are imposed by NEPOOL or the ISO on suppliers. Seller shall be responsible for all transmission and distribution costs associated with the use of transmission systems outside of NEPOOL and any local point to point charges and distribution charges needed to deliver the power to the NEPOOL PTF.

Losses

Seller shall be responsible for all transmission and distribution losses associated with the delivery of electricity supplied under this Agreement to the meters of ultimate customers of NECO receiving retail Standard Offer Service, provided, however, that losses do not include service to unmetered facilities for which estimates of kWh use are available and provided, further, that Seller shall not be responsible for unmetered use or consumption of electricity by NECO's Affiliates. Seller shall provide NECO at the Delivery Points with additional quantities of electricity and ancillary services to cover such losses, but Seller shall not be entitled to payment under ARTICLE 5 of this Agreement for such additional quantity. The quantities required for this purpose in each hour of a billing period shall be determined in accordance with NEPOOL's, NEP's and NECO's filed procedures for loss determination.

Contains Privileged and Confidential Information
Do Not Release

6.3 Determination and Reporting of Hourly Loads

(a) To meet its NEPOOL obligations, Seller, or a NEPOOL member having an own-load dispatch or settlement account with the NEPOOL billing system with whom Seller has a load inclusion agreement, must report to NEPOOL or the ISO the Standard Offer Service load for which Seller is providing Wholesale Standard Offer Service pursuant to this Agreement, including losses. To accomplish this, NECO will estimate its total hourly Standard Offer Service load based upon average load profiles developed for each NECO customer class and NECO's actual total hourly load. Appendix B, attached and incorporated herein by reference, provides a general description of the estimation process that NECO will initially employ (the "Estimation Process"). NECO reserves the right, subject to the approval of appropriate regulatory authorities having jurisdiction to modify the Estimation Process in the future, provided that any such modification be designed to improve the accuracy of its results, and provided further that NECO shall consult with Seller and other similarly situated sellers to the maximum extent permitted by any applicable standards of conduct. NECO will report to NEPOOL, on behalf of Seller or such other NEPOOL member, Seller's hourly Standard Offer Service load, which shall equal the portion of NECO's estimated total Standard Offer Service hourly load for which Seller is responsible for supplying Wholesale Standard Offer Service under this Agreement.

(b) NECO will report to NEPOOL or the ISO Seller's hourly adjusted Standard Offer Service loads by 12:00 noon of the second following business day. This adjusted load should be added by NEPOOL or the ISO to the other NEPOOL load of Seller or such other NEPOOL member.

(c) At the end of each month, NECO shall aggregate Seller's hourly loads for the month as determined by the Estimation Process. For purposes of SECTION 5.1, above, the result of the Estimation Process, less losses to the Standard Offer Service customers' meters determined as specified in ARTICLE 6 SECTION 6.2, above, will be deemed to be the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points in a month.

(d) To refine the estimates of Seller's monthly Standard Offer Service load developed by the Estimation Process, a monthly calculation will be performed to reconcile the original estimate of Seller's Standard Offer Service loads to actual customer usage based on meter reads. NECO will apply any resulting billing adjustment (debit or credit) to Seller's account no later than the last day of the third month following the billing month. Appendix B, attached and incorporated herein by reference, also provides a general description of this reconciliation process.

ARTICLE 7. DEFAULT AND TERMINATION

7.1 Material Breach and Termination

- (a) (i) If NECO fails in any material respect to comply with, observe or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to Seller's wrongful act or wrongful failure to act); and

After receipt of written notice from Seller such failure continues for the Cure Period (as defined below), or, if such failure cannot be reasonably cured within the Cure Period, such further period as shall reasonably be required to effect such cure (except in the case of a payment default), provided that NECO commences within the Cure Period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then

Seller shall have the right to terminate this Agreement, subject to paragraph (c) below. For purposes of this Section 7.1(a), the Cure Period shall mean five days in the case of a failure by NECO to fulfill its payment obligations pursuant to Section 5.2 and forty-five (45) days in the case of a failure by NECO to comply with, observe or perform any other covenant, warranty or obligation under this Agreement. If an unexcused failure to pay continues for fifteen (15) days, Seller shall have the right to suspend service until payment is made in full and appropriate security is posted for future payments or to terminate this Agreement.

- (b) (i) If Seller fails in any material respect to comply with, observe, or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to NECO's wrongful act or wrongful failure to act); and

After receipt of written notice from NECO such failure continues for a period of forty-five (45) days, or, if such failure cannot be reasonably cured within such forty-five (45) day period, such further period as shall reasonably be required to effect such cure, provided that Seller commences within such forty-five (45) day period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then

NECO shall have the right to terminate this Agreement, subject to paragraph (c) below.

(c) Any termination arising out of the exercise of the termination rights specified in paragraphs (a) or (b) above (with the exception of termination for a payment default) may not take effect unless and until an arbitrator (pursuant to ARTICLE 15, SECTION 15.2 of this Agreement) has made a ruling that the exercise of such termination right was valid. The fact that one party alleged to be in material breach of this Agreement ("Alleged Breaching Party") complies with the request of the other to cure an alleged material breach shall not be considered by the arbitrator as an admission against the Alleged Breaching Party or evidence that such party was or was not in material breach.

(d) Nothing in this SECTION 7.1 shall be construed to limit the right of any party to seek any remedies for damages, as limited by ARTICLE 9 of this Agreement, even if a cure of an alleged breach is made within the periods of time specified for curing any such breach stated above. The provisions of this SECTION 7.1 are intended only to provide the exclusive process through which one party may exercise and effectuate its right to terminate this Agreement as a result of a material breach of this Agreement.

ARTICLE 8. NOTICES, REPRESENTATIVES OF THE PARTIES

8.1 Notices

Any notice, demand, or request required or authorized by this Agreement to be given by one party to another party shall be in writing. It shall either be sent by facsimile (confirmed by telephone), overnight courier, personally delivered and acknowledged in writing or by registered or certified mail, (return receipt requested) postage prepaid, to the representative of the other party designated in this ARTICLE 8. Any such notice, demand, or request shall be deemed to be given (i) when sent by facsimile confirmed by telephone, (ii) when actually received if delivered by courier or personal deliver or (iii) three (3) days after deposit in the United States mail, if sent by first class mail.

Notices and other communications by Seller to NECO shall be addressed to:

The Narragansett Electric Company
c/o New England Power Service Company
25 Research Drive
Westborough, MA 01582
Attention: Michael J. Hager
Fax: (508) 389-3001

Notices and other communications by NECO to Seller shall be addressed to:

USGen New England, Inc.
7500 Old Georgetown Road, 13th Floor
Bethesda, MD 20814
Attention: Stephen A. Herman

Fax: (301) 718-6913

Any party may change its representative by written notice to the others.

8.2 Authority of Representative

The parties' representatives designated in ARTICLE 8, SECTION 8.1 shall have full authority to act for their respective principals in all technical matters relating to the performance of this Agreement. They shall not, however, have the authority to amend, modify, or waive any provision of this Agreement unless they are authorized officers of their respective entities.

ARTICLE 9. LIABILITY, INDEMNIFICATION, AND RELATIONSHIP OF PARTIES

9.1 Limitation on Consequential, Incidental and Indirect Damages

To the fullest extent permissible by law, neither NECO nor Seller, nor their respective officers, directors, agents, employees, parent or affiliates, successor or assigns, or their respective officers, directors, agents, or employees, successors, or assigns, shall be liable to the other party or its parent, subsidiaries, affiliates, officers, directors, agents, employees, successors or assigns, for claims, suits, actions or causes of action for incidental, indirect, special, punitive, multiple or consequential damages (including attorney's fees or litigation costs) connected with or resulting from performance or non-performance of this Agreement, or any actions undertaken in connection with or related to this Agreement, including without limitation any such damages which are based upon causes of action for breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, Rhode Island Gen. Laws Title 6, c. 13.1, statute, operation of law, or any other theory of recovery. The provisions of this SECTION 9.1 shall apply regardless of fault and shall survive termination, cancellation, suspension, completion or expiration of this Agreement.

9.2 Recovery of Direct Damages Permitted

Notwithstanding the provisions of ARTICLE 9, SECTION 9.1, subject to the duty to mitigate damages as provided under common law of damages recovery, both NECO and Seller shall be entitled to recover their actual, direct damages (i) incurred as a result of the other party's breach of this Agreement or (ii) incurred as a result of any other claim arising out of any action undertaken in connection with or related to this Agreement. For purposes of avoiding any disputes about the difference between direct damages and consequential damages, the parties agree as follows:

- (a) (1) To the extent that NECO is found to be in breach of this Agreement or liable under another cause of action; and

- (2) as a result of such breach or event giving rise to the cause of action, Seller suffers loss of profits that Seller reasonably expected to have received from NECO under this Agreement had NECO performed under this Agreement; then
 - (3) Seller shall be entitled to recover any lost profits that Seller can demonstrate it lost or will lose as a result of NECO's breach, subject to the duty to mitigate.
- (b) (1) To the extent that Seller fails to provide NECO Wholesale Standard Offer Service Power under the terms of this Agreement; and
- (2) as a result, Seller is found to be in material breach of this Agreement or liable under another cause of action; and
 - (3) subject to the duty to mitigate, NECO purchases (as a result of Seller's failure) power from a third party at a price that is higher than what NECO would have paid under the terms of this Agreement, NECO may recover the difference between the price NECO paid to such third party and the price it would have paid had Seller performed; provided, however, Seller shall not be liable to NECO for lost profits associated with any expected revenue streams from the sale of power to third parties or lost profits from any other contracts or sales.

(c) Except as provided in paragraphs (a) and (b) above, neither NECO nor Seller shall be liable to the other for lost profits arising out of performance, or non-performance of this Agreement, whether such lost profits may be categorized as direct, incidental, indirect, or consequential damages and irrespective of whether such claims are based upon warranty, tort, strict liability, contract, statute (including R.I. G.L. Title 6, c. 13.1), operation of law or otherwise.

9.3 Indemnification

(a) Seller agrees to defend, indemnify and save NECO, its officers, directors, employees, agents, successors, assigns, and Affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by Seller, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of NECO or their successors or assigns.

(b) NECO agrees to defend, indemnify and save Seller, its officers, directors, employees, agents, successors, assigns, and affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by NECO, its

officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of Seller or their successors or assigns.

(c) If any party intends to seek indemnification under this ARTICLE from the other party with respect to any action or claim, the party seeking indemnification shall give the other party notice of such claim or action within fifteen (15) days of the commencement of, or actual knowledge of, such claim or action. Such party seeking indemnification shall have the right, at its sole cost and expense, to participate in the defense of any such claim or action. The party seeking indemnification shall not compromise or settle any such claim or action without the prior consent of the other party, which consent shall not be unreasonably withheld.

9.4 Independent Contractor Status

Nothing in this Agreement shall be construed as creating any relationship between NECO and Seller other than that of independent contractors for the sale and purchase of electricity provided as Wholesale Standard Offer Service.

ARTICLE 10. ASSIGNMENT

10.1 Assignment

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto, including by operation of law without the prior written consent of the other party, nor is this Agreement intended to confer upon any other Person except the parties hereto any rights or remedies hereunder. Notwithstanding the foregoing, (i) NECO may, without Seller's prior written consent, (A) assign all or a portion of its rights and obligations under this Agreement to any Affiliate of NECO or (B) assign its rights and obligations hereunder, or transfer such rights and obligations by operation of law, to any corporation or other entity with which or into which NECO shall merge or consolidate or to which NECO shall transfer all or substantially all of its assets, provided that such Affiliate or other entity agrees to be bound by the terms thereof; provided, in either case, that the assignee or transferor shall have senior securities rated investment grade or better; (ii) the Seller may assign all of its rights and obligations hereunder to any wholly owned Subsidiary (direct or indirect) of PG&E Corporation and upon NECO's receipt of notice from Seller of any such assignment, the Seller will be released from all liabilities and obligations hereunder, accrued and unaccrued, such assignee will be deemed to have assumed, ratified, agreed to be bound by and perform all such liabilities and obligations, and all references herein to "Seller" shall thereafter be deemed references to such assignee, in each case without the necessity for further act or evidence by the parties hereto or such assignee; provided, however, that no such assignment and assumption shall release the Buyer from its liabilities and obligations

hereunder unless the assignee shall have acquired all or substantially all of the Buyer's assets; provided, further, however, that no such assignment and assumption shall relieve or in any way discharge PG&E Corporation from the performance of its duties and obligations under the Guaranty dated as of the date of this Agreement executed by PG&E Corporation, and (iii) the Seller or its permitted assignee may assign, transfer, pledge or otherwise dispose of its rights and interests hereunder to a trustee or lending institution(s) for the purposes of financing or refinancing the Purchased Assets, including upon or pursuant to the exercise of remedies under such financing or refinancing, or by way of assignments, transfers, conveyances or dispositions in lieu thereof; provided, however, that no such assignment or disposition shall relieve or in any way discharge the Seller or such assignee from the performance of its duties and obligations under this Agreement. NECO agrees to execute and deliver such documents as may be reasonably necessary to accomplish any such assignment, transfer, conveyance, pledge or disposition of rights hereunder so long as NECO's rights under this Agreement are not thereby altered, amended, diminished or otherwise impaired.

ARTICLE 11. SUCCESSORS AND ASSIGNS

This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective permitted successors and assigns.

ARTICLE 12. FORCE MAJEURE

Force Majeure Standard

The parties shall be excused from performing their respective obligations hereunder and shall not be liable in damages or otherwise, if and only to the extent that they are unable to so perform or are prevented from performing by an event of force majeure.

Force Majeure Definition

An event of force majeure includes, without limitation, storm, flood, lightning, drought, earthquake, fire, explosion, equipment failure, civil disturbance, labor dispute, act of God or the public enemy, action of a court or public authority, or any other cause beyond a party's control, but only if and to the extent that the event directly affects the availability of the transmission or distribution facilities of NEPOOL, NECO or an Affiliate necessary to deliver Wholesale Standard Offer Service to NECO's customers. Events affecting the availability or cost of operating any generating facility shall not be events of force majeure.

Obligation to Diligently Cure Force Majeure

If any party shall rely on the occurrence of an event or condition described in ARTICLE 12, SECTION 12.2, above, as a basis for being excused from performance of its obligations under this Agreement, then the party relying on the event or condition shall:

- a. provide written notice to the other parties promptly but in no event later than 5 days of the occurrence of the event or condition giving an estimation of its expected duration and the probable impact on the performance of its obligations hereunder;
- b. exercise all reasonable efforts to continue to perform its obligations hereunder;
- c. expeditiously take reasonable action to correct or cure the event or condition excusing performance; provided that settlement of strikes or other labor disputes will be completely within the sole discretion of the party affected by such strike or labor dispute;
- d. exercise all reasonable efforts to mitigate or limit damages to the other parties to the extent such action will not adversely affect its own interests; and
- e. provide prompt notice to the other parties of the cessation of the event or condition giving rise to its excuse from performance.

ARTICLE 13. WAIVERS

The failure of either party to insist in any one or more instance upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights under this Agreement shall not be construed as a general waiver of any such provision or the relinquishment of any such right, but the same shall continue and remain in full force and effect, except with respect to the particular instance or instances.

ARTICLE 14. REGULATION

14.1 Laws and Regulations

This Agreement and all rights, obligations, and performances of the parties hereunder, are subject to all applicable Federal and state laws, and to all duly promulgated orders and other duly authorized action of governmental authority having jurisdiction.

14.2 NEPOOL Requirements

This Agreement must comply with all NEPOOL Criteria, Rules, and Standard Operating Procedures ("Rules"). If, during the term of this Agreement, the NEPOOL Agreement is terminated or amended in a manner that would eliminate or materially alter a Rule affecting a right or obligation of a party hereunder, or if such a Rule is eliminated or materially altered by NEPOOL, the parties agree to negotiate in good faith in an attempt to

amend this Agreement to incorporate a replacement Rule ("Replacement Rule"). The intent of the parties is that any such Replacement Rule reflect, as closely as possible, the intent and substance of the Rule being replaced as such Rule was in effect prior to such termination or amendment of the NEPOOL Agreement or elimination or alteration of the Rule. If the parties are unable to reach agreement on such an amendment, the parties agree to submit the matter to arbitration under the terms of Appendix C, attached and incorporated herein by reference, and to seek a resolution of the matter consistent with the above stated intent.

ARTICLE 15. INTERPRETATION, DISPUTE RESOLUTION

15.1 Interpretation

The interpretation and performance of this Agreement shall be in accordance with and controlled by the laws of The State of Rhode Island.

15.2 Dispute Resolution

All disputes between NECO and Seller arising out of or relating to this Agreement which are defined as "Arbitrable Claims" in SECTION 2 of Appendix C, attached and incorporated herein by reference, shall be resolved by binding arbitration and be governed by the terms of such Arbitration Agreement. Any arbitration of an Arbitrable Claim that is substantially related to an arbitrable claim under a Wholesale Standard Offer Service Agreement among Seller, Massachusetts Electric Company, and Nantucket Electric Company shall be conducted jointly with the arbitration of the latter claim, before the same panel of arbitrators, with NECO, Massachusetts Electric Company, and Nantucket Electric Company jointly exercising their rights regarding the selection of arbitrators. Any decisions of the arbitrators shall be final and binding upon the parties.

ARTICLE 16. SEVERABILITY

If any provision or provisions of this Agreement shall be held invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

ARTICLE 17. MODIFICATIONS

No modification to this Agreement will be binding on any party unless it is in writing and signed by all parties.

ARTICLE 18. SUPERSESSION

This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and its execution supersedes any other agreements, written or oral, between the parties concerning such subject matter.

ARTICLE 19. COUNTERPARTS

This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.

ARTICLE 20. HEADINGS

Article and Section headings used throughout this Agreement are for the convenience of the parties only and are not to be construed as part of this Agreement.

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

**THE NARRAGANSETT ELECTRIC
COMPANY**

BY: *John G. Cochran*

Its *Assistant Treasurer*

USGEN NEW ENGLAND, INC.

BY: _____

Its _____

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

THE NARRAGANSETT ELECTRIC
COMPANY

BY: _____

Its _____

USGEN ACQUISITION CORPORATION

BY:  _____

M. Richard Smith

Its Vice President _____

Appendix A. Incremental Revenues From NECO Customer Rate Fuel Adjustment

In the event of substantial increases in the market prices of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999, incremental revenues received by NECO as a result of NECO's Customer Rate Fuel Adjustment, described below, will be fully allocated among suppliers of Wholesale Standard Offer Service Power in proportion to the percentage of NECO's total Standard Offer Service requirements during the month that such supplier delivers under its respective agreement with NECO.

NECO's Customer Rate in effect for a given billing month is multiplied by a "Fuel Adjustment" that is set equal to 1.0 and thus has no impact on the Customer Rate unless the "Market Gas Price" plus "Market Oil Price" for the billing month exceeds the "Fuel Trigger Point" then in effect, where:

The NECO Customer rate for retail customers who elect Standard Offer Service by choice or inaction is the following predetermined, flat rate for energy consumed:

<u>Calendar Year</u>	<u>Price per Kilowatt hour</u>
1998	3.2 cents
1999	3.5 cents
2000	3.8 cents
2001	3.8 cents
2002	4.2 cents
2003	4.7 cents
2004	5.1 cents
2005	5.5 cents
2006	5.9 cents
2007	6.3 cents
2008	6.7 cents
2009	7.1 cents

Market Gas Price is the average of the values of "Gas Index" for the most recent available twelve months, where:

Gas Index is the average of the daily settlement prices for the last three days that the NYMEX Contract (as defined below) for the month of delivery trades as reported in the "Wall Street Journal", expressed in dollars per MMBtu. NYMEX Contract shall mean the New York Mercantile Exchange Natural Gas Futures Contract as approved by the Commodity Futures Trading Commission for the purchase and sale of natural gas at Henry Hub;

Market Oil Price is the average of the values of "Oil Index" for the most recent available twelve months, where:

Oil Index is the average for the month of the daily low quotations for cargo delivery of 1.0% sulphur No. 6 residual fuel oil into New York harbor, as reported in "Platt's Oilgram U.S. Marketscan" in dollars per barrel and converted to dollars per MMBtu by dividing by 6.3; and

If the indices referred to above should become obsolete or no longer suitable, NECO shall file alternate indices with the RIPUC.

Fuel Trigger Point is the following amounts, expressed in dollars per MMBtu, applicable for all months in the specified calendar year:

2000	\$5.35/MMBtu
2001	\$5.35
2002	\$6.09
2003	\$7.01
2004	\$7.74
2005	\$8.48
2006	\$9.22
2007	\$9.95
2008	\$10.69
2009	\$11.42

In the event that the Fuel Trigger Point is exceeded, the Fuel Adjustment value for the billing month is determined based according to the following formula:

$$\text{Fuel Adjustment} = \frac{(\text{Market Gas Price} + \$0.60/\text{MMBtu}) + (\text{Market Oil Price} + \$0.04/\text{MMBtu})}{\text{Fuel Trigger Point} + \$0.60 + \$0.04/\text{MMBtu}}$$

Where:

Market Gas Price, Market Oil Price and Fuel Trigger Point are as defined above. The values of \$.60 and \$.04/MMBtu represent for gas and oil respectively, estimated basis differentials or market costs of transportation from the point where the index is calculated to a proxy power plant in the New England market.

For example if at a point in the year 2002 the Market Gas Price and Market Oil Price total \$6.50 (\$3.50/MMBtu plus \$3.00/MMBtu respectively), the Fuel Trigger Point of 6.09 would be exceeded. In this case the Fuel Adjustment value would be:

$$\frac{(\$3.50 + \$.60/\text{MMBtu}) + (\$3.00 + \$.04/\text{MMBtu})}{\$6.09 + \$.60 + \$.04/\text{MMBtu}} = 1.0609$$

The Customer Rate paid to NECO is increased by this Fuel Adjustment factor for the billing month, becoming 4.4548¢/kWh (4.2 x 1.0609).

In subsequent months the same comparisons are made and, if applicable, a Fuel Adjustment determined.

Appendix B. Estimation of Supplier Hourly Loads

Overview

Generating units operated by suppliers are dispatched by the power pool to meet the region's electrical requirements reliably, and at the lowest possible cost. As a result, a supplier's electricity production may not match the demand of its customers. In each hour some suppliers with low cost production units are net sellers of electricity to the pool, while other suppliers are purchasing power from the pool to meet the demand of their customers. To determine the extent to which suppliers are net buyers or sellers on an hourly basis, it is necessary to estimate the hourly aggregate demand for all of the customers served by each supplier ("own-load"). NECO will estimate Seller's Wholesale Standard Offer Service "own-load" within NECO's service territory and report the hourly results to NEPOOL or the ISO on a daily basis.

The estimation process is a cost effective approach to producing results that are reliable, unbiased and reasonably accurate. The hourly load estimates will be based on rate class load profiles which will be developed from statistically designed samples. Each day, the class load shapes will be scaled to the population of customers served by each supplier contracting with NECO as a result of the Standard Offer Auction ("Standard Offer Auction Supplier"), Seller, and any other entity providing Wholesale Standard Offer Service. In cases where telemetered data on individual customers are available, they will be used in place of the estimated shapes. On a monthly basis, the estimates will be refined by incorporating actual usage data obtained from meter readings. In both processes, the sum of all suppliers' estimated Standard Offer Service loads will match the total load delivered into the distribution system. A description of the estimation process follows.

Daily Estimation of Suppliers' Own Load

The daily process estimates the hourly load for each Standard Offer Auction Supplier, Seller, and any other entity providing Wholesale Standard Offer Service, for the previous day. There are four components in this process:

- Select a proxy date from the previous year with characteristics which best match the day for which the hourly demand estimates are being produced. Extract class load shapes for the selected proxy date from the load research data base.
- Scale the class load shapes appropriately for each individual customer based on the usage level of the customer relative to the class average usage level.
- Calculate a factor for each customer which reflects their relative usage level and includes an adjustment for losses ("load adjustment factor"). Aggregate the load adjustment factors across the customers served by each supplier in each class.

- Produce a preliminary estimate of each supplier's hourly loads by combining the proxy day class load shapes with the supplier's total load adjustment factors. Aggregate the loads across the classes for each supplier.
- Adjust the preliminary hourly supplier estimates so that their sum is equal to NECO's actual hourly metered loads (as metered at the point of delivery to the distribution system) by allocating any differences to suppliers in proportion to their estimated load.

Monthly Reconciliation Process

The monthly process will improve the estimates of Standard Offer Service supplier loads by incorporating the most recent customer usage information, which will be available after the monthly meter readings are processed. A comparison will be made between customers' estimated and actual usage, by billing cycle, then summed across billing cycles for each supplier. The ratio between the actual kWh and the estimated kWh reflects the kWh amount for which the supplier may have been overcharged or undercharged by NEPOOL or the ISO during the month. This ratio will be used to develop a kWh adjustment amount for each supplier for the calendar month. The sum of the adjustments will be zero because the total kWh will still be constrained to equal NECO's actual hourly metered Standard Offer Service loads during the month.

Appendix C. Arbitration Agreement

ARBITRATION AGREEMENT

This Arbitration Agreement, dated as of _____ (date of Wholesale Standard Offer Service Agreement), is entered into between The Narragansett Electric Company, a Rhode Island corporation ("NECO") and _____, a _____ (describe entity) ("Seller"). Reference is made to that certain Wholesale Standard Offer Service Agreement dated as of _____, 199__ (the "Service Agreement") between NECO and Seller. Unless otherwise specified or apparent from the context of this Arbitration Agreement, the term "Party" shall mean either NECO or Seller, or both of them.

WHEREAS, NECO and Seller wish to avoid the burden, time, and expense of court proceedings with respect to any disputes that may arise from or relate to the Service Agreement, and to submit such disputes to mandatory binding arbitration if they cannot first be resolved through negotiation and mediation.

NOW, THEREFORE, NECO and SELLER AGREE AS FOLLOWS:

1. Mediation

Before resorting to mediation or arbitration under this Arbitration Agreement, the Parties will try to resolve promptly through negotiation any Arbitrable claim, as defined below. If the Arbitrable Claim has not been resolved through negotiation within ten (10) days after the existence of the Arbitrable Claim has been brought to the attention of the other Party in a writing, any Party may request in writing to resolve the Arbitrable Claim through mediation conducted by a mediator selected by agreement of the Parties. The mediation procedure shall be determined by the Parties in consultation with the mediator. Any mediation pursuant hereto shall be kept confidential. The fees and expenses of the mediator shall be borne equally by the Parties. If the Parties are unable to agree upon the identity of a mediator or a mediation procedure within ten (10) days after a Party has requested mediation in writing or if the Arbitrable Claim has not been resolved to the satisfaction of either NECO or Seller within forty (40) days after the Parties have selected a mediator and agreed upon a mediation procedure, either Party may invoke arbitration pursuant to the following sections by notifying the other Party of such selection in writing consistent with Section 3(c), below.

2. Mandatory Arbitration

(a) Except as provided in paragraph (b) of this Section 2 and in Section 8, below, any case, controversy or claim arising out of or relating to the Service Agreement, its breach, or any other disputes arising out of the business relationship created by the Service Agreement, of whatever nature, including but not limited to any claim based in contract, in law, in equity, any statute, regulation, or theory of law now in existence or which may come into

existence in the future, whether known or unknown, including without limitation, claims based upon deceit, fraudulent inducement, misrepresentation, 18 U.S.C §§1962 and 1964 (RICO), and R.I. G.L. Title 6, c. 13.1, the federal and state antitrust laws (collectively, the "Arbitrable Claims"), which cannot be resolved by negotiation or mediation, as provided in Section 1 above, shall be submitted to mandatory, binding, and final arbitration in accordance with procedures set forth in this Agreement, which shall constitute the exclusive remedy for any and all Arbitrable Claims.

(b) Notwithstanding paragraph (a) above, physical accidents or events giving rise to negligence or intentional tort claims for the recovery of property damages and/or damages for personal injury and failure to make payments due under Section 5.2 of the Service Agreement shall not be considered "Arbitrable Claims." However disputes regarding the interpretation or scope of any indemnification clauses in the Service Agreement shall be subject to arbitration, even if the dispute relates to whether one Party must indemnify the other for property damages and/or damages for personal injury, the recovery of which was or will be determined in a court of law.

(c) Each Party agrees that it will not attempt to circumvent this Arbitration Agreement by coordinating or cooperating with their respective parent companies or affiliates or guarantors in the filing of a legal action in the name of any of the parent companies or affiliates or guarantors of the Parties to this Arbitration Agreement regarding claims that otherwise are subject to this Arbitration Agreement. Any Party failing to comply with this provision shall indemnify the other Party against, and hold the other harmless from, the costs (including reasonable litigation costs) incurred by the other in defending any and all claims brought by a parent company or affiliate or guarantor of the other in a court of law regarding claims that otherwise would be Arbitrable Claims under this Arbitration Agreement.

3. Selection and Qualification of Arbitrators

(a) Any arbitration shall be conducted by a panel of three neutral arbitrators, consisting of (i) a practicing lawyer admitted to practice in the Commonwealth of Massachusetts; (ii) a person with professional experience in and substantial knowledge of the power generation industry in any one or more of the New England States, who may be, but need not be a lawyer, and (iii) a person with professional experience in and substantial knowledge of power markets in any one or more of the New England States, who may, but need not be, a lawyer (collectively, the "Arbitration Panel"). For purposes of this Arbitration Agreement, an arbitrator or candidate shall be considered "neutral" only if the arbitrator or candidate has not previously served as an arbitrator for a Party or one of its affiliates or guarantors and is not a present or former lawyer, employee or consultant of a Party or any of its affiliates or guarantors.

(b) Any Party entitled to commence arbitration hereunder shall do so by serving a written Notice of Arbitration briefly describing the Arbitrable Claims and the Agreements under which they are brought. Service of such Notice of Arbitration shall be complete upon receipt by the person designated for each party at the addresses specified in Section 12 below.

(c) Within twenty (20) days after service of a Notice of Arbitration, each Party shall serve upon the other Party a list of seven neutral candidates for each of the three panel members described in subparagraph (a) above.

(d) Within twenty (20) days after service of the lists referred to in subparagraph (c), NECO and Seller shall then strike from the other's lists any two candidates from each of the lists, for any reason whatsoever. For the remaining candidates each Party shall rank each candidate on its three lists from one to five and shall do the same for the other Party's lists.

(e) The candidates in each of the three categories with the lowest total score shall be invited to serve as panel members. In the event that the candidate in any of the three categories with the lowest total score is unable or unwilling to serve, or has a potential conflict of interest not consented to by each Party, then the candidate with the next lowest score in that category shall be invited to serve, subject to full disclosure by each candidate of, and consent by each Party to any potential conflicts of interests. This process shall be repeated until a full arbitration Panel is selected or the list of candidates for that category is exhausted. If the list of candidates for a category is exhausted the Parties shall exchange a new list of candidates for that category and the procedures set forth above shall be repeated a second time.

(f) If the parties cannot select a full Arbitration Panel in accordance with these procedures than any Party may request that a court of competent jurisdiction appoint the remaining members subject to their qualifications, willingness and ability to serve as provided above.

(g) The American Arbitration Association shall be appointed to facilitate and administer the parties' compliance with the procedures set forth above.

4. Time Schedule

The Arbitration shall be conducted as expeditiously as possible. The Arbitration Panel shall schedule a pre-hearing conference and hearings as it deems advisable and shall use its best efforts to schedule consecutive days of hearings. Hearings shall be limited to a total of ten (10) days. The Arbitration Panel shall issue its final decision and award within thirty (30) days of the close of the hearings, which shall be accompanied by a written, reasoned opinion.

5. Remedies

(a) The Arbitration Panel shall not award punitive or multiple damages or any other damages not measured by the prevailing Party's actual damages - except that the Arbitration Panel, in its sole discretion, may shift all or a portion of the costs of the Arbitration to any Party.

(b) Any award of damages by the Arbitration Panel shall be determined, limited and controlled by the damages limitation clauses of the Service Agreement applicable to the dispute before the Arbitration Panel.

(c) The Arbitration Panel may, in its discretion, award pre-award and post-award interest on any damages award; provided, however, that the rate of pre-award or post-award interest shall not exceed a rate equal to the rate provided for post-judgment interest by 28 U.S.C. § 1961 as published from time to time by the Administrative Office of the United States Courts based on the equivalent coupon issue yield for auctions of 52-week Treasury bills.

6. Confidentiality

The existence, contents, or results of any mediation or arbitration hereunder may not be disclosed without the prior written consent of both Parties; provided, however, either Party may make disclosures as may be necessary to fulfill regulatory obligations to any regulatory bodies having jurisdiction, and may inform their lenders, affiliates, auditors and insurers, as necessary, under pledge of confidentiality and can consult with experts as required in connection with the arbitration under pledge of confidentiality. If any Party seeks preliminary injunctive relief from any court to preserve the status quo or avoid irreparable harm pending mediation or arbitration, the Parties agree to use best efforts to keep the court proceedings confidential, to the maximum extent permitted by law.

7. FERC Jurisdiction over Certain Disputes

(a) Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, any Party from filing a petition or complaint with the Federal Energy Regulatory Commission ("FERC") with respect to any Arbitrable Claim. In such case, the other Party may request FERC to reject or to waive jurisdiction. If the FERC rejects or waives jurisdiction, with respect to all or a portion of the claim, the portion of the claim not so accepted by FERC shall be resolved through arbitration, as provided in this Arbitration Agreement. To the extent that FERC asserts or accepts jurisdiction over the claim, the decision, finding of fact, or order of FERC shall be final and binding, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings.

(b) The Arbitration Panel shall have no authority to modify, and shall be conclusively bound by, any decision, finding of fact, or order of FERC. However, to the extent that a decision finding of fact, or order of FERC does not provide a final or complete remedy to the Party seeking relief, such Party may proceed to arbitration under this Arbitration Agreement to secure such remedy, subject to the FERC decision, finding or order.

8. Preliminary Injunctive Relief

Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, the resort by either Party to a court of competent jurisdiction solely for the purposes of securing a temporary or preliminary injunction to preserve the status quo or avoid irreparable harm pending mediation or arbitration pursuant to this Arbitration Agreement.

9. Governing Law

This Arbitration Agreement shall be construed, enforced in accordance with, and governed by, the laws of the State of Rhode Island.

10. Location of Arbitration

Any arbitration hereunder shall be conducted in Boston, Massachusetts.

11. Severability

If any section, subsection, sentence, or clause of this Arbitration Agreement is adjudged illegal, invalid, or unenforceable, such illegality, invalidity, or enforceability shall not affect the legality, validity, or enforceability of the Arbitration Agreement as a whole or of any section, subsection, sentence or clause hereof not so adjudged.

12. Notices

Any notices required to be given pursuant to this Arbitration Agreement shall be in writing and sent to the receiving party by (i) certified mail, return receipt requested, (ii) overnight delivery service, or (iii) facsimile transmission (confirmed by telephone), addressed to the receiving party at the address shown below or such other address as a party may subsequently designate in writing. Any such notice shall be deemed to be given (i) three days after deposit in the United States mail, if sent by mail, (ii) when actually received if sent by overnight delivery service, or (iii) when sent, if sent by facsimile and confirmed by telephone.

If to NECO: The Narragansett Electric Company
25 Research Drive
Westborough, Massachusetts 01582
Attention: General Counsel
Facsimile: (508) 389-2463

If to Seller

Attention: _____
Facsimile: () - _____

In addition, the parties shall send copies of any notices required by the terms of any of the Agreements, in accordance with the terms of each Agreement.

IN WITNESS WHEREOF, Each Party has caused its duly authorized officers to execute this Arbitration Agreement on the dates set forth below.

THE NARRAGANSETT ELECTRIC COMPANY

BY: _____

Its _____

USGEN NEW ENGLAND, INC.

BY: _____

Its _____

**NECO WHOLESALE STANDARD OFFER
SERVICE AGREEMENT II**

**WHOLESALE STANDARD OFFER
SERVICE AGREEMENT**

between

THE NARRAGANSETT ELECTRIC COMPANY

and

USGEN NEW ENGLAND, INC.

Dated as of October 29, 1997

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NECO WHOLESALE STANDARD OFFER SERVICE AGREEMENT II

This **NECO WHOLESALE STANDARD OFFER SERVICE AGREEMENT II** ("Agreement") is dated as of October 29, 1997 and is by and between THE NARRAGANSETT ELECTRIC COMPANY, a Rhode Island corporation ("NECO"), and USGen New England, Inc. (formerly named USGen Acquisition Corporation), a Delaware corporation ("Seller"). This Agreement provides for the purchase by NECO and the sale by Seller of Wholesale Standard Offer Service, as defined in this Agreement.

ARTICLE 1. BASIC UNDERSTANDINGS

NECO purchases all of its requirements of electricity for resale to its retail electric customers from its affiliate, New England Power Company ("NEP").

NEP, NECO and other parties have entered into an agreement in settlement of regulatory proceedings before the Federal Energy Regulatory Commission (the "Rhode Island Restructuring Agreement") that, among other things, implements certain requirements of the Rhode Island Utility Restructuring Act of 1996 (the "Act"), permits NECO to terminate wholesale purchases from NEP, permits current retail customers of NECO to purchase electricity from other suppliers on and after a date defined therein as the "Retail Access Date," or, for a limited time, to purchase Standard Offer Service from NECO, obligates NEP to supply NECO with power sufficient to meet the latter's obligations to supply Standard Offer Service, and obligates NEP to transfer its interests in the electric generating business to another party or parties.

NEP, NECO, and Seller have entered an agreement under which Seller will acquire certain NEP and NECO generating assets.

NEP and Seller desire that Seller shall supply electric capacity and energy to NECO to fulfill a portion of NEP's power supply obligations under the Rhode Island Restructuring Agreement.

Under the Rhode Island Restructuring Agreement, NECO is obligated to afford wholesale power suppliers other than NEP the opportunity to commit to supply NECO with power sufficient to meet NECO's obligation to supply retail Standard Offer Service after the Retail Access Date.

This Agreement sets forth the terms under which Seller will supply Wholesale Standard Offer Service to NECO, for a period beginning on the Closing Date, to enable NECO to meet the needs of its retail customers for electricity, including all or a portion of the needs of customers receiving retail Standard Offer Service after the Retail Access Date.

ARTICLE 2. DEFINITIONS

The following words and terms shall be understood to have the following meanings when used in this Agreement, or in any associated documents entered into in conjunction with this Agreement. In addition, except as otherwise expressly provided, where terms used in this Agreement are defined in the NEPOOL Agreement and not otherwise defined herein, such definitions are expressly incorporated into this Agreement by reference.

Affiliate of NECO - Any company that is a subsidiary of New England Electric System and its successors.

Closing Date - The date upon which the Seller acquires ownership of generating assets it purchases from NEP.

Commission or FERC - The Federal Energy Regulatory Commission or such successor federal regulatory agency as may have jurisdiction over this Agreement.

Contract Termination Date - The date established by the Rhode Island Restructuring Agreement when the respective obligations of NEP and NECO under NEP's FERC Electric Tariff, Original Volume No. 1, to sell and purchase wholesale electric requirements service shall cease. The Contract Termination Date shall occur on the earlier of the Retail Access Date or the Wholesale Access Date.

GWh - Gigawatt hour.

ISO - The Independent System Operator to be established in accordance with the NEPOOL Agreement and the Interim Independent System Operator Agreement as amended, superseded or restated from time to time.

kWh - Kilowatt- hour.

MECO - Massachusetts Electric Company.

MECO Wholesale Standard Offer Service Agreement - The Wholesale Standard Offer Service Agreement of even date herewith between MECO and the Seller.

NECO's Service Territory - The geographic area in which NECO provided electric service to retail customers on August 6, 1996.

NECO's System - The electrical system of NECO and/or the electrical system of any Affiliate of NECO.

MMBtu - Million British thermal units.

NEP - New England Power Company, an Affiliate of NECO.

NEPEX - The New England Power Exchange.

NEPOOL - The New England Power Pool.

NEPOOL Agreement - The New England Power Pool Agreement dated as of September 1, 1971, as amended and as may be amended or restated from time to time.

Price - The price set forth in SECTION 5.1, below.

Prime Rate - The prime (or comparable) rate announced from time to time as its prime rate by the Bank of Boston or its successor, which rate may differ from the rate offered to its more substantial and creditworthy customers.

PTF - Facilities categorized as Pool Transmission Facilities under the NEPOOL Agreement.

Retail Access Date - The date so defined under the Rhode Island Restructuring Agreement, as the later of January 1, 1998, or the date of a final, nonappealable order of the RIPUC approving the divestiture plan for the disposition of NEP's non-nuclear generating facilities provided, however, that in any event the Retail Access Date shall occur no later than three (3) months after retail access is available to forty percent (40%) or more of the kilowatt hour sales in New England including the total kilowatt hour sales in Rhode Island.

Rhode Island Restructuring Agreement - The Offer of Settlement dated May 30, 1997, entered into by and among the RIPUC, the Rhode Island Division of Public Utilities and Carriers, NECO, and NEP, as amended and accepted or approved by the FERC.

RIPUC - The Rhode Island Public Utilities Commission.

Standard Offer Auction - The solicitation by NECO of offers from wholesale power suppliers, including, at their option, NEP and Seller, of electric energy and associated capacity and ancillary services necessary to meet the needs of ultimate customers of NECO eligible for and accepting retail Standard Offer Service on or after the Retail Access Date, and any wholesale electric supply contracts resulting from that solicitation. The solicitation and any contract(s) entered into as a result thereof shall not be on terms that are materially different from those described by MECO in the Massachusetts Restructuring Agreement (as defined in the MECO Wholesale Standard Offer Service Agreement), the RFQ dated April 3, 1997, and the letter to potential asset purchasers dated June 16, 1997, or result in a material adverse impact on Seller. NECO shall not, without Seller's consent, conduct the Standard Offer Auction more than once or more than six (6) months prior to the Retail Access Date, which date shall be as reasonably determined by NECO.

Standard Offer Service - The electric service provided by NECO pursuant to the Rhode Island Restructuring Agreement: (i) to retail customers in NECO's Service Territory during the period, if any, during the term of this Agreement preceding the Retail Access Date; and (ii) to NECO's retail customers on the Retail Access Date that do not elect to obtain their electric supply from an alternative supplier on or after the Retail Access Date through December 31, 2009.

Wholesale Access Date - The date so defined under the Rhode Island Restructuring Agreement, as the date on which NECO in its sole discretion decides to terminate its purchase from NEP of wholesale requirements service pursuant to NEP's FERC Electric Tariff, Original Volume No. 1, by providing the Commission and the Signatories to the Rhode Island Restructuring Agreement with 90 days advance notice in writing, said date not to be earlier than January 1, 1998.

Wholesale Standard Offer Service - The generation and delivery, to any location on the NEPOOL PTF system or NECO's system, of the portion of the electric capacity, energy and ancillary services required by NECO to meet the needs of NECO's ultimate customers taking Standard Offer Service, excluding, after the Retail Access Date, any portion of such requirements that NECO has contracted to obtain through the Standard Offer Auction, determined in accordance with ARTICLE 4. Seller, as the supplier of Wholesale Standard Offer Service capacity and energy, will be responsible for all present, or future requirements and associated costs for installed capability, operable capability, energy, operating reserves, and automatic generation control, including tie benefit payments, losses and any congestion charges associated with Seller's supply of Wholesale Standard Offer Service and any other requirements imposed by NEPOOL or the ISO, as they may be in effect from time to time. To the extent that any NEPOOL, ISO or any successor entity expenses or uplift costs are allocated to wholesale suppliers, the portion of such costs associated with Seller's supply of Standard Offer Service will also be the responsibility of Seller. To the extent any costs contemplated by this paragraph are applicable to NECO and recoverable by NECO from its customers, NECO shall be responsible for such costs.

ARTICLE 3. TERM AND REGULATORY APPROVAL

3.1 Term

The term of this Agreement shall begin at 12:01 am on the Closing Date and continue until the earlier of: (a) 11:59 pm on December 31, 2009; or (b) the first date that NECO has no requirements for electric capacity and energy to supply Standard Offer Service that are not satisfied by contracts resulting from the Standard Offer Auction

3.2 Obtaining and Maintaining Required Permits

(a) Performance under this Agreement is conditioned upon both Parties securing and maintaining such federal, state or local approvals, grants or permits as may be necessary for the sale and purchase of Wholesale Standard Offer Service, which shall not include any approvals, grants, or permits necessary for the operation of any particular generating facility. Each Party shall use reasonable efforts to acquire and maintain such approvals, grants or permits. If the acquisition or maintenance of a particular approval, grant, or permit requires a modification to this Agreement, then the Parties agree to negotiate in good-faith to reach a mutually agreeable modification of the Agreement. The Parties are not required to reach such a mutually acceptable modification.

(b) Seller will file this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) in accordance with the provisions of applicable laws, rules and regulations. Seller will be responsible for any filing fees for filing this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) and for any regulatory assessments associated with sales under this Agreement. FERC approval of this Agreement shall be a condition to the obligations of the Parties hereunder.

ARTICLE 4. SALE AND PURCHASE

Seller shall sell and deliver to the Delivery Points, as defined in ARTICLE 6, SECTION 6.1 and NECO shall purchase 9.22% of NECO's requirements for Wholesale Standard Offer Service. NECO's requirements for Wholesale Standard Offer Service shall be determined on the basis of ARTICLE 6, SECTION 6.3, below, and the price for such sale and purchase shall be as set forth in ARTICLE 5, SECTION 5.1, below.

ARTICLE 5. PRICE AND BILLING

5.1 Price

For each kilowatt hour of Wholesale Standard Offer Service that Seller delivers to the Delivery Points, in accordance with ARTICLE 6, SECTION 6.3, below, NECO shall pay Seller a price equal to the following amounts for each period during the term of this Agreement:

Period	Price in Cents per kWh
1998	3.2 Cents
1999	3.5 Cents
2000	3.8 Cents
2001	3.8 Cents
2002	4.2 Cents
2003	4.7 Cents
2004	5.1 Cents
2005	5.5 Cents
2006	5.9 Cents
2007	6.3 Cents
2008	6.7 Cents
2009	7.1 Cents

In addition, in the event of increases in the market price of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999 as described in Appendix A, NECO shall pay Seller a percentage of any incremental revenues received by NECO as a result of NECO's Customer Rate Fuel Adjustment, described in Appendix A, attached and incorporated herein by reference. Such percentage, with respect to the billing month, shall equal the percentage of NECO's total Standard Offer Service requirements during the month that Seller delivers under this Agreement.

5.2 Payment

(a) On or before the tenth (10th) day of each month during the term of this Agreement, NECO shall: (i) calculate the amount due and payable to Seller pursuant to this ARTICLE 5 with respect to the preceding month; and (ii) advise Seller of the schedule upon which it shall pay the amount so calculated, which schedule shall comply with paragraph (b), below. The amount payable shall be calculated by multiplying the Price specified in the first paragraph of ARTICLE 5, SECTION 5.1, above, for the applicable Contract Period by the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points for NECO's Standard Offer Service customers in the month, as determined in accordance with ARTICLE 6, SECTION 6.3, below. Because quantities determined under SECTION 6.3 are estimated, subject to a reconciliation process described in SECTION 6.3(d), quantities used in calculations under this paragraph (a) shall be subject to adjustment, whether positive or negative, in subsequent months' calculations, to reflect that reconciliation process, and any adjusted quantities shall be applied to the Price applicable during the month of the calculation being adjusted. Seller's percentage of any Customer Rate Fuel Adjustment incremental revenue shall be added to such amount.

(b) NECO shall pay Seller any amounts due and payable on or before the twenty-fifth (25th) day after the date a calculation is made pursuant to paragraph (a), provided that, if and to the extent NECO pays Seller any portion of the amount due and payable before the twenty-fifth (25th) day after a calculation is made, it shall be entitled, without interest or penalty, to defer payment of an equal portion of the amount due and payable for that month by the lesser of: (i) the same number of days that the early payment preceded the twenty-fifth day after the calculation; and (ii) twenty-five (25) days. If all or any part of any amount due and payable pursuant to paragraph (a) shall remain unpaid thereafter, interest shall thereafter accrue and be payable to Seller on such unpaid amount at a rate per annum equal to two percent (2%) above the Prime Rate in effect on the date of such bill; provided, however, if the amount due and payable is disputed, interest shall accrue and be payable to Seller on the unpaid amount finally determined to be due and payable at a rate per annum equal to the Prime Rate in effect on the date of the calculation pursuant to paragraph (a); and provided, further, no interest shall accrue in favor of Seller or NECO on amounts that are added to or credited against a calculation due to the adjustment of estimated quantities in accordance with paragraph (a) and ARTICLE 6, SECTION 6.3.

(c) With respect to reconciliation adjustments pursuant to SECTION 6.3(d) or any error in a calculation (whether the amount is paid or not), any overpayment, underpayment, or reconciliation adjustment will be refunded or paid up, as appropriate. Interest shall accrue from the date of the error or adjustment on the unpaid or overpaid amount finally determined to be due and shall be calculated pursuant to Section 35.19a of the Commission regulations.

5.3 Taxes, Fees and Levies

Seller shall be obligated to pay all present and future taxes, fees and levies which may be assessed upon Seller by any entity upon the purchase or sale of electricity covered by the Agreement. To the extent such taxes, fees, and levies are allowed to be, and are actually, recoverable by NECO from its customers, NECO shall reimburse Seller for such taxes, fees, and levies paid by Seller. It is expressly agreed that Seller shall not be responsible for, and shall be held harmless from, the Rhode Island Tax on gross receipts or earnings (Public Service Corporation Tax, Chapter 44-13 of the Rhode Island General Laws, as amended or superseded).

ARTICLE 6. DELIVERY, LOSSES, AND DETERMINATION AND REPORTING OF HOURLY LOADS

6. Delivery

All electricity shall be delivered to NECO in the form of three-phase sixty-hertz alternating current at any location on the NEPOOL PTF system or NECO's System ("Delivery Points"). Title shall pass to NECO at the Delivery Point and Seller shall incur no expense or risk beyond the Delivery Point other than those described in SECTION 6.2. If the NEPOOL control area experiences congestion, Seller will be responsible for any congestion costs incurred in delivering power across the PTF system to NECO to the extent such costs are imposed by NEPOOL or the ISO on suppliers. Seller shall be responsible for all transmission and distribution costs associated with the use of transmission systems outside of NEPOOL and any local point to point charges and distribution charges needed to deliver the power to the NEPOOL PTF.

6.2 Losses

Seller shall be responsible for all transmission and distribution losses associated with the delivery of electricity supplied under this Agreement to the meters of ultimate customers of NECO receiving retail Standard Offer Service, provided, however, that losses do not include service to unmetered facilities for which estimates of kWh use are available and provided, further, that Seller shall not be responsible for unmetered use or consumption of electricity by NECO's Affiliates. Seller shall provide NECO at the Delivery Points with additional quantities of electricity and ancillary services to cover such losses, but Seller shall not be entitled to payment under ARTICLE 5 of this Agreement for such additional quantity. The quantities required for this purpose in each hour of a billing period shall be determined in accordance with NEPOOL's, NEP's and NECO's filed procedures for loss determination.

6.3 Determination and Reporting of Hourly Loads

(a) To meet its NEPOOL obligations, Seller, or a NEPOOL member having an own-load dispatch or settlement account with the NEPOOL billing system with whom Seller has a load inclusion agreement, must report to NEPOOL or the ISO the Standard Offer Service load for which Seller is providing Wholesale Standard Offer Service pursuant to this Agreement, including losses. To accomplish this, NECO will estimate its total hourly Standard Offer Service load based upon average load profiles developed for each NECO customer class and NECO's actual total hourly load. Appendix B, attached and incorporated herein by reference, provides a general description of the estimation process that NECO will initially employ (the "Estimation Process"). NECO reserves the right, subject to the approval of appropriate regulatory authorities having jurisdiction to modify the Estimation Process in the future, provided that any such modification be designed to improve the accuracy of its results, and provided further that NECO shall consult with Seller and other similarly situated sellers to the maximum extent permitted by any applicable standards of conduct. NECO will report to NEPOOL, on behalf of Seller or such other NEPOOL member, Seller's hourly Standard Offer Service load, which shall equal the portion of NECO's estimated total Standard Offer Service hourly load for which Seller is responsible for supplying Wholesale Standard Offer Service under this Agreement.

(b) NECO will report to NEPOOL or the ISO Seller's hourly adjusted Standard Offer Service loads by 12:00 noon of the second following business day. This adjusted load should be added by NEPOOL or the ISO to the other NEPOOL load of Seller or such other NEPOOL member.

(c) At the end of each month, NECO shall aggregate Seller's hourly loads for the month as determined by the Estimation Process. For purposes of SECTION 5.1, above, the result of the Estimation Process, less losses to the Standard Offer Service customers' meters determined as specified in ARTICLE 6 SECTION 6.2, above, will be deemed to be the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points in a month.

(d) To refine the estimates of Seller's monthly Standard Offer Service load developed by the Estimation Process, a monthly calculation will be performed to reconcile the original estimate of Seller's Standard Offer Service loads to actual customer usage based on meter reads. NECO will apply any resulting billing adjustment (debit or credit) to Seller's account no later than the last day of the third month following the billing month. Appendix B, attached and incorporated herein by reference, also provides a general description of this reconciliation process.

ARTICLE 7. DEFAULT AND TERMINATION

7.1 Material Breach and Termination

- (a) (i) If NECO fails in any material respect to comply with, observe or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to Seller's wrongful act or wrongful failure to act); and
- (ii) After receipt of written notice from Seller such failure continues for the Cure Period (as defined below), or, if such failure cannot be reasonably cured within the Cure Period, such further period as shall reasonably be required to effect such cure (except in the case of a payment default), provided that NECO commences within the Cure Period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then

Seller shall have the right to terminate this Agreement, subject to paragraph (c) below. For purposes of this Section 7.1(a), the Cure Period shall mean five days in the case of a failure by NECO to fulfill its payment obligations pursuant to Section 5.2 and forty-five (45) days in the case of a failure by NECO to comply with, observe or perform any other covenant, warranty or obligation under this Agreement. If an unexcused failure to pay continues for fifteen (15) days, Seller shall have the right to suspend service until payment is made in full and appropriate security is posted for future payments or to terminate this Agreement.

- (b) (i) If Seller fails in any material respect to comply with, observe, or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to NECO's wrongful act or wrongful failure to act); and
- (ii) After receipt of written notice from NECO such failure continues for a period of forty-five (45) days, or, if such failure cannot be reasonably cured within such forty-five (45) day period, such further period as shall reasonably be required to effect such cure, provided that Seller commences within such forty-five (45) day period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then

NECO shall have the right to terminate this Agreement, subject to paragraph (c) below.

(c) Any termination arising out of the exercise of the termination rights specified in paragraphs (a) or (b) above (with the exception of termination for a payment default) may not take effect unless and until an arbitrator (pursuant to ARTICLE 15, SECTION 15.2 of this Agreement) has made a ruling that the exercise of such termination right was valid. The fact that one party alleged to be in material breach of this Agreement ("Alleged Breaching Party") complies with the request of the other to cure an alleged material breach shall not be considered by the arbitrator as an admission against the Alleged Breaching Party or evidence that such party was or was not in material breach.

(d) Nothing in this SECTION 7.1 shall be construed to limit the right of any party to seek any remedies for damages, as limited by ARTICLE 9 of this Agreement, even if a cure of an alleged breach is made within the periods of time specified for curing any such breach stated above. The provisions of this SECTION 7.1 are intended only to provide the exclusive process through which one party may exercise and effectuate its right to terminate this Agreement as a result of a material breach of this Agreement.

ARTICLE 8. NOTICES, REPRESENTATIVES OF THE PARTIES

8. Notices

Any notice, demand, or request required or authorized by this Agreement to be given by one party to another party shall be in writing. It shall either be sent by facsimile (confirmed by telephone), overnight courier, personally delivered and acknowledged in writing or by registered or certified mail, (return receipt requested) postage prepaid, to the representative of the other party designated in this ARTICLE 8. Any such notice, demand, or request shall be deemed to be given (i) when sent by facsimile confirmed by telephone, (ii) when actually received if delivered by courier or personal deliver or (iii) three (3) days after deposit in the United States mail, if sent by first class mail.

Notices and other communications by Seller to NECO shall be addressed to:

The Narragansett Electric Company
c/o New England Power Service Company
25 Research Drive
Westborough, MA 01582
Attention: Michael J. Hager
Fax: (508) 389-3001

Notices and other communications by NECO to Seller shall be addressed to:

USGen New England, Inc.
7500 Old Georgetown Road, 13th Floor
Bethesda, MD 20814
Attention: Stephen A. Herman
Fax: (301) 718-6913

Any party may change its representative by written notice to the others.

Authority of Representative

The parties' representatives designated in ARTICLE 8, SECTION 8.1 shall have full authority to act for their respective principals in all technical matters relating to the performance of this Agreement. They shall not, however, have the authority to amend, modify, or waive any provision of this Agreement unless they are authorized officers of their respective entities.

ARTICLE 9. LIABILITY, INDEMNIFICATION, AND RELATIONSHIP OF PARTIES

Limitation on Consequential, Incidental and Indirect Damages

To the fullest extent permissible by law, neither NECO nor Seller, nor their respective officers, directors, agents, employees, parent or affiliates, successor or assigns, or their respective officers, directors, agents, or employees, successors, or assigns, shall be liable to the other party or its parent, subsidiaries, affiliates, officers, directors, agents, employees, successors or assigns, for claims, suits, actions or causes of action for incidental, indirect, special, punitive, multiple or consequential damages (including attorney's fees or litigation costs) connected with or resulting from performance or non-performance of this Agreement, or any actions undertaken in connection with or related to this Agreement, including without limitation any such damages which are based upon causes of action for breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, Rhode Island Gen. Laws Title 6, c. 13.1, statute, operation of law, or any other theory of recovery. The provisions of this SECTION 9.1 shall apply regardless of fault and shall survive termination, cancellation, suspension, completion or expiration of this Agreement.

Recovery of Direct Damages Permitted

Notwithstanding the provisions of ARTICLE 9, SECTION 9.1, subject to the duty to mitigate damages as provided under common law of damages recovery, both NECO and Seller shall be entitled to recover their actual, direct damages (i) incurred as a result of the other party's breach of this Agreement or (ii) incurred as a result of any other claim arising out of any action undertaken in connection with or related to this Agreement. For purposes of

avoiding any disputes about the difference between direct damages and consequential damages, the parties agree as follows:

- (a) (1) To the extent that NECO is found to be in breach of this Agreement or liable under another cause of action; and
- (2) as a result of such breach or event giving rise to the cause of action, Seller suffers loss of profits that Seller reasonably expected to have received from NECO under this Agreement had NECO performed under this Agreement; then
- (3) Seller shall be entitled to recover any lost profits that Seller can demonstrate it lost or will lose as a result of NECO's breach, subject to the duty to mitigate.

- (b) (1) To the extent that Seller fails to provide NECO Wholesale Standard Offer Service Power under the terms of this Agreement; and

as a result, Seller is found to be in material breach of this Agreement or liable under another cause of action; and

subject to the duty to mitigate, NECO purchases (as a result of Seller's failure) power from a third party at a price that is higher than what NECO would have paid under the terms of this Agreement, NECO may recover the difference between the price NECO paid to such third party and the price it would have paid had Seller performed; provided, however, Seller shall not be liable to NECO for lost profits associated with any expected revenue streams from the sale of power to third parties or lost profits from any other contracts or sales.

(c) Except as provided in paragraphs (a) and (b) above, neither NECO nor Seller shall be liable to the other for lost profits arising out of performance, or non-performance of this Agreement, whether such lost profits may be categorized as direct, incidental, indirect, or consequential damages and irrespective of whether such claims are based upon warranty, tort, strict liability, contract, statute (including R.I. G.L. Title 6, c. 13.1), operation of law or otherwise.

9.3 Indemnification

(a) Seller agrees to defend, indemnify and save NECO, its officers, directors, employees, agents, successors, assigns, and Affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by Seller, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to

the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of NECO or their successors or assigns.

(b) NECO agrees to defend, indemnify and save Seller, its officers, directors, employees, agents, successors, assigns, and affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by NECO, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of Seller or their successors or assigns.

(c) If any party intends to seek indemnification under this ARTICLE from the other party with respect to any action or claim, the party seeking indemnification shall give the other party notice of such claim or action within fifteen (15) days of the commencement of, or actual knowledge of, such claim or action. Such party seeking indemnification shall have the right, at its sole cost and expense, to participate in the defense of any such claim or action. The party seeking indemnification shall not compromise or settle any such claim or action without the prior consent of the other party, which consent shall not be unreasonably withheld.

Independent Contractor Status

Nothing in this Agreement shall be construed as creating any relationship between NECO and Seller other than that of independent contractors for the sale and purchase of electricity provided as Wholesale Standard Offer Service.

ARTICLE 10. ASSIGNMENT

Assignment

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto, including by operation of law without the prior written consent of the other party, nor is this Agreement intended to confer upon any other Person except the parties hereto any rights or remedies hereunder. Notwithstanding the foregoing, (i) NECO may, without Seller's prior written consent, (A) assign all or a portion of its rights and obligations under this Agreement to any Affiliate of NECO or (B) assign its rights and obligations hereunder, or transfer such rights and obligations by operation of law, to any corporation or other entity with which or into which NECO shall merge or consolidate or to which NECO shall transfer all or substantially all of its assets, provided that such Affiliate or other entity agrees to be bound by the terms thereof; provided, in either case, that the assignee or transferor shall have senior securities rated investment grade or better; (ii) the Seller may assign all of its rights and obligations hereunder to any wholly owned Subsidiary (direct or

indirect) of PG&E Corporation and upon NECO's receipt of notice from Seller of any such assignment, the Seller will be released from all liabilities and obligations hereunder, accrued and unaccrued, such assignee will be deemed to have assumed, ratified, agreed to be bound by and perform all such liabilities and obligations, and all references herein to "Seller" shall thereafter be deemed references to such assignee, in each case without the necessity for further act or evidence by the parties hereto or such assignee; provided, however, that no such assignment and assumption shall release the Buyer from its liabilities and obligations hereunder unless the assignee shall have acquired all or substantially all of the Buyer's assets; provided, further, however, that no such assignment and assumption shall relieve or in any way discharge PG&E Corporation from the performance of its duties and obligations under the Guaranty dated as of the date of this Agreement executed by PG&E Corporation, and (iii) the Seller or its permitted assignee may assign, transfer, pledge or otherwise dispose of its rights and interests hereunder to a trustee or lending institution(s) for the purposes of financing or refinancing the Purchased Assets, including upon or pursuant to the exercise of remedies under such financing or refinancing, or by way of assignments, transfers, conveyances or dispositions in lieu thereof; provided, however, that no such assignment or disposition shall relieve or in any way discharge the Seller or such assignee from the performance of its duties and obligations under this Agreement. NECO agrees to execute and deliver such documents as may be reasonably necessary to accomplish any such assignment, transfer, conveyance, pledge or disposition of rights hereunder so long as NECO's rights under this Agreement are not thereby altered, amended, diminished or otherwise impaired.

ARTICLE 11. SUCCESSORS AND ASSIGNS

This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective permitted successors and assigns.

ARTICLE 12. FORCE MAJEURE

12.1 Force Majeure Standard

The parties shall be excused from performing their respective obligations hereunder and shall not be liable in damages or otherwise, if and only to the extent that they are unable to so perform or are prevented from performing by an event of force majeure.

12.2 Force Majeure Definition

An event of force majeure includes, without limitation, storm, flood, lightning, drought, earthquake, fire, explosion, equipment failure, civil disturbance, labor dispute, act of God or the public enemy, action of a court or public authority, or any other cause beyond a party's control, but only if and to the extent that the event directly affects the availability of the transmission or distribution facilities of NEPOOL, NECO or an Affiliate necessary to

deliver Wholesale Standard Offer Service to NECO's customers. Events affecting the availability or cost of operating any generating facility shall not be events of force majeure.

12.3 Obligation to Diligently Cure Force Majeure

If any party shall rely on the occurrence of an event or condition described in ARTICLE 12, SECTION 12.2, above, as a basis for being excused from performance of its obligations under this Agreement, then the party relying on the event or condition shall:

- a. provide written notice to the other parties promptly but in no event later than 5 days of the occurrence of the event or condition giving an estimation of its expected duration and the probable impact on the performance of its obligations hereunder;
- b. exercise all reasonable efforts to continue to perform its obligations hereunder;
- c. expeditiously take reasonable action to correct or cure the event or condition excusing performance; provided that settlement of strikes or other labor disputes will be completely within the sole discretion of the party affected by such strike or labor dispute;
- d. exercise all reasonable efforts to mitigate or limit damages to the other parties to the extent such action will not adversely affect its own interests; and
- e. provide prompt notice to the other parties of the cessation of the event or condition giving rise to its excuse from performance.

ARTICLE 13. WAIVERS

The failure of either party to insist in any one or more instance upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights under this Agreement shall not be construed as a general waiver of any such provision or the relinquishment of any such right, but the same shall continue and remain in full force and effect, except with respect to the particular instance or instances.

ARTICLE 14. REGULATION

14.1 Laws and Regulations

This Agreement and all rights, obligations, and performances of the parties hereunder, are subject to all applicable Federal and state laws, and to all duly promulgated orders and other duly authorized action of governmental authority having jurisdiction.

NEPOOL Requirements

This Agreement must comply with all NEPOOL Criteria, Rules, and Standard Operating Procedures ("Rules"). If, during the term of this Agreement, the NEPOOL Agreement is terminated or amended in a manner that would eliminate or materially alter a Rule affecting a right or obligation of a party hereunder, or if such a Rule is eliminated or materially altered by NEPOOL, the parties agree to negotiate in good faith in an attempt to amend this Agreement to incorporate a replacement Rule ("Replacement Rule"). The intent of the parties is that any such Replacement Rule reflect, as closely as possible, the intent and substance of the Rule being replaced as such Rule was in effect prior to such termination or amendment of the NEPOOL Agreement or elimination or alteration of the Rule. If the parties are unable to reach agreement on such an amendment, the parties agree to submit the matter to arbitration under the terms of Appendix C, attached and incorporated herein by reference, and to seek a resolution of the matter consistent with the above stated intent.

ARTICLE 15. INTERPRETATION, DISPUTE RESOLUTION

Interpretation

The interpretation and performance of this Agreement shall be in accordance with and controlled by the laws of The State of Rhode Island.

Dispute Resolution

All disputes between NECO and Seller arising out of or relating to this Agreement which are defined as "Arbitrable Claims" in SECTION 2 of Appendix C, attached and incorporated herein by reference, shall be resolved by binding arbitration and be governed by the terms of such Arbitration Agreement. Any arbitration of an Arbitrable Claim that is substantially related to an arbitrable claim under a Wholesale Standard Offer Service Agreement among Seller, Massachusetts Electric Company, and Nantucket Electric Company shall be conducted jointly with the arbitration of the latter claim, before the same panel of arbitrators, with NECO, Massachusetts Electric Company, and Nantucket Electric Company jointly exercising their rights regarding the selection of arbitrators. Any decisions of the arbitrators shall be final and binding upon the parties.

Contains Privileged and Confidential Information
Do Not Release

ARTICLE 16. SEVERABILITY

If any provision or provisions of this Agreement shall be held invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

ARTICLE 17. MODIFICATIONS

No modification to this Agreement will be binding on any party unless it is in writing and signed by all parties.

ARTICLE 18. SUPERSESSION

This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and its execution supersedes any other agreements, written or oral, between the parties concerning such subject matter.

ARTICLE 19. COUNTERPARTS

This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.

ARTICLE 20. HEADINGS

Article and Section headings used throughout this Agreement are for the convenience of the parties only and are not to be construed as part of this Agreement.

12/03/97 12:35


10/29/97

16:44

SKADDEN ARPS → 508 389 2463

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

**THE NARRAGANSETT ELECTRIC
COMPANY**

BY: 
John G. Cochrane

Its Assistant Treasurer

USGEN NEW ENGLAND, INC.

BY: _____

Its _____

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

THE NARRAGANSETT ELECTRIC
COMPANY

BY: _____

Its _____

USGEN ACQUISITION CORPORATION

BY:  _____

M. Richard Smith

Its Vice President _____

Appendix A. Incremental Revenues From NECO Customer Rate Fuel Adjustment

In the event of substantial increases in the market prices of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999, incremental revenues received by NECO as a result of NECO's Customer Rate Fuel Adjustment, described below, will be fully allocated among suppliers of Wholesale Standard Offer Service Power in proportion to the percentage of NECO's total Standard Offer Service requirements during the month that such supplier delivers under its respective agreement with NECO.

NECO's Customer Rate in effect for a given billing month is multiplied by a "Fuel Adjustment" that is set equal to 1.0 and thus has no impact on the Customer Rate unless the "Market Gas Price" plus "Market Oil Price" for the billing month exceeds the "Fuel Trigger Point" then in effect, where:

The NECO Customer rate for retail customers who elect Standard Offer Service by choice or inaction is the following predetermined, flat rate for energy consumed:

<u>Calendar Year</u>	<u>Price per Kilowatt hour</u>
1998	3.2 cents
1999	3.5 cents
2000	3.8 cents
2001	3.8 cents
2002	4.2 cents
2003	4.7 cents
2004	5.1 cents
2005	5.5 cents
2006	5.9 cents
2007	6.3 cents
2008	6.7 cents
2009	7.1 cents

Market Gas Price is the average of the values of "Gas Index" for the most recent available twelve months, where:

Gas Index is the average of the daily settlement prices for the last three days that the NYMEX Contract (as defined below) for the month of delivery trades as reported in the "Wall Street Journal", expressed in dollars per MMBtu. NYMEX Contract shall mean the New York Mercantile Exchange Natural Gas Futures Contract as approved by the Commodity Futures Trading Commission for the purchase and sale of natural gas at Henry Hub;

Market Oil Price is the average of the values of "Oil Index" for the most recent available twelve months, where:

Oil Index is the average for the month of the daily low quotations for cargo delivery of 1.0% sulphur No. 6 residual fuel oil into New York harbor, as reported in "Platt's Oilgram U.S. Marketscan" in dollars per barrel and converted to dollars per MMBtu by dividing by 6.3; and

If the indices referred to above should become obsolete or no longer suitable, NECO shall file alternate indices with the RIPUC.

Fuel Trigger Point is the following amounts, expressed in dollars per MMBtu, applicable for all months in the specified calendar year:

2000	\$5.35/MMBtu
2001	\$5.35
2002	\$6.09
2003	\$7.01
2004	\$7.74
2005	\$8.48
2006	\$9.22
2007	\$9.95
2008	\$10.69
2009	\$11.42

In the event that the Fuel Trigger Point is exceeded, the Fuel Adjustment value for the billing month is determined based according to the following formula:

$$\text{Fuel Adjustment} = \frac{(\text{Market Gas Price} + \$0.60/\text{MMBtu}) + (\text{Market Oil Price} + \$0.04/\text{MMBtu})}{\text{Fuel Trigger Point} + \$0.60 + \$0.04/\text{MMBtu}}$$

Where:

Market Gas Price, Market Oil Price and Fuel Trigger Point are as defined above. The values of \$.60 and \$.04/MMBtu represent for gas and oil respectively, estimated basis differentials or market costs of transportation from the point where the index is calculated to a proxy power plant in the New England market.

For example if at a point in the year 2002 the Market Gas Price and Market Oil Price total \$6.50 (\$3.50/MMBtu plus \$3.00/MMBtu respectively), the Fuel Trigger Point of 6.09 would be exceeded. In this case the Fuel Adjustment value would be:

$$\frac{(\$3.50 + \$.60/\text{MMBtu}) + (\$3.00 + \$.04/\text{MMBtu})}{\$6.09 + \$.60 + \$.04/\text{MMBtu}} = 1.0609$$

The Customer Rate paid to NECO is increased by this Fuel Adjustment factor for the billing month, becoming 4.4548¢/kWh (4.2 x 1.0609).

In subsequent months the same comparisons are made and, if applicable, a Fuel Adjustment determined.

Appendix B. Estimation of Supplier Hourly Loads

Overview

Generating units operated by suppliers are dispatched by the power pool to meet the region's electrical requirements reliably, and at the lowest possible cost. As a result, a supplier's electricity production may not match the demand of its customers. In each hour some suppliers with low cost production units are net sellers of electricity to the pool, while other suppliers are purchasing power from the pool to meet the demand of their customers. To determine the extent to which suppliers are net buyers or sellers on an hourly basis, it is necessary to estimate the hourly aggregate demand for all of the customers served by each supplier ("own-load"). NECO will estimate Seller's Wholesale Standard Offer Service "own-load" within NECO's service territory and report the hourly results to NEPOOL or the ISO on a daily basis.

The estimation process is a cost effective approach to producing results that are reliable, unbiased and reasonably accurate. The hourly load estimates will be based on rate class load profiles which will be developed from statistically designed samples. Each day, the class load shapes will be scaled to the population of customers served by each supplier contracting with NECO as a result of the Standard Offer Auction ("Standard Offer Auction Supplier"), Seller, and any other entity providing Wholesale Standard Offer Service. In cases where telemetered data on individual customers are available, they will be used in place of the estimated shapes. On a monthly basis, the estimates will be refined by incorporating actual usage data obtained from meter readings. In both processes, the sum of all suppliers' estimated Standard Offer Service loads will match the total load delivered into the distribution system. A description of the estimation process follows.

Daily Estimation of Suppliers' Own Load

The daily process estimates the hourly load for each Standard Offer Auction Supplier, Seller, and any other entity providing Wholesale Standard Offer Service, for the previous day. There are four components in this process:

- Select a proxy date from the previous year with characteristics which best match the day for which the hourly demand estimates are being produced. Extract class load shapes for the selected proxy date from the load research data base.
- Scale the class load shapes appropriately for each individual customer based on the usage level of the customer relative to the class average usage level.
- Calculate a factor for each customer which reflects their relative usage level and includes an adjustment for losses ("load adjustment factor"). Aggregate the load adjustment factors across the customers served by each supplier in each class.

- Produce a preliminary estimate of each supplier's hourly loads by combining the proxy day class load shapes with the supplier's total load adjustment factors. Aggregate the loads across the classes for each supplier.
- Adjust the preliminary hourly supplier estimates so that their sum is equal to NECO's actual hourly metered loads (as metered at the point of delivery to the distribution system) by allocating any differences to suppliers in proportion to their estimated load.

Monthly Reconciliation Process

The monthly process will improve the estimates of Standard Offer Service supplier loads by incorporating the most recent customer usage information, which will be available after the monthly meter readings are processed. A comparison will be made between customers' estimated and actual usage, by billing cycle, then summed across billing cycles for each supplier. The ratio between the actual kWh and the estimated kWh reflects the kWh amount for which the supplier may have been overcharged or undercharged by NEPOOL or the ISO during the month. This ratio will be used to develop a kWh adjustment amount for each supplier for the calendar month. The sum of the adjustments will be zero because the total kWh will still be constrained to equal NECO's actual hourly metered Standard Offer Service loads during the month.

Appendix C. Arbitration Agreement**ARBITRATION AGREEMENT**

This Arbitration Agreement, dated as of _____ (date of Wholesale Standard Offer Service Agreement), is entered into between The Narragansett Electric Company, a Rhode Island corporation ("NECO") and _____, a _____ (describe entity) ("Seller"). Reference is made to that certain Wholesale Standard Offer Service Agreement dated as of _____, 199__ (the "Service Agreement") between NECO and Seller. Unless otherwise specified or apparent from the context of this Arbitration Agreement, the term "Party" shall mean either NECO or Seller, or both of them.

WHEREAS, NECO and Seller wish to avoid the burden, time, and expense of court proceedings with respect to any disputes that may arise from or relate to the Service Agreement, and to submit such disputes to mandatory binding arbitration if they cannot first be resolved through negotiation and mediation.

NOW, THEREFORE, NECO and SELLER AGREE AS FOLLOWS:**1. Mediation**

Before resorting to mediation or arbitration under this Arbitration Agreement, the Parties will try to resolve promptly through negotiation any Arbitrable claim, as defined below. If the Arbitrable Claim has not been resolved through negotiation within ten (10) days after the existence of the Arbitrable Claim has been brought to the attention of the other Party in a writing, any Party may request in writing to resolve the Arbitrable Claim through mediation conducted by a mediator selected by agreement of the Parties. The mediation procedure shall be determined by the Parties in consultation with the mediator. Any mediation pursuant hereto shall be kept confidential. The fees and expenses of the mediator shall be borne equally by the Parties. If the Parties are unable to agree upon the identity of a mediator or a mediation procedure within ten (10) days after a Party has requested mediation in writing or if the Arbitrable Claim has not been resolved to the satisfaction of either NECO or Seller within forty (40) days after the Parties have selected a mediator and agreed upon a mediation procedure, either Party may invoke arbitration pursuant to the following sections by notifying the other Party of such selection in writing consistent with Section 3(c), below.

2. Mandatory Arbitration

(a) Except as provided in paragraph (b) of this Section 2 and in Section 8, below, any case, controversy or claim arising out of or relating to the Service Agreement, its breach, or any other disputes arising out of the business relationship created by the Service Agreement, of whatever nature, including but not limited to any claim based in contract, in law, in equity, any statute, regulation, or theory of law now in existence or which may come into

existence in the future, whether known or unknown, including without limitation, claims based upon deceit, fraudulent inducement, misrepresentation, 18 U.S.C §§1962 and 1964 (RICO), and R.I. G.L. Title 6, c. 13.1, the federal and state antitrust laws (collectively, the "Arbitrable Claims"), which cannot be resolved by negotiation or mediation, as provided in Section 1 above, shall be submitted to mandatory, binding, and final arbitration in accordance with procedures set forth in this Agreement, which shall constitute the exclusive remedy for any and all Arbitrable Claims.

(b) Notwithstanding paragraph (a) above, physical accidents or events giving rise to negligence or intentional tort claims for the recovery of property damages and/or damages for personal injury and failure to make payments due under Section 5.2 of the Service Agreement shall not be considered "Arbitrable Claims." However disputes regarding the interpretation or scope of any indemnification clauses in the Service Agreement shall be subject to arbitration, even if the dispute relates to whether one Party must indemnify the other for property damages and/or damages for personal injury, the recovery of which was or will be determined in a court of law.

(c) Each Party agrees that it will not attempt to circumvent this Arbitration Agreement by coordinating or cooperating with their respective parent companies or affiliates or guarantors in the filing of a legal action in the name of any of the parent companies or affiliates or guarantors of the Parties to this Arbitration Agreement regarding claims that otherwise are subject to this Arbitration Agreement. Any Party failing to comply with this provision shall indemnify the other Party against, and hold the other harmless from, the costs (including reasonable litigation costs) incurred by the other in defending any and all claims brought by a parent company or affiliate or guarantor of the other in a court of law regarding claims that otherwise would be Arbitrable Claims under this Arbitration Agreement.

3. Selection and Qualification of Arbitrators

(a) Any arbitration shall be conducted by a panel of three neutral arbitrators, consisting of (i) a practicing lawyer admitted to practice in the Commonwealth of Massachusetts; (ii) a person with professional experience in and substantial knowledge of the power generation industry in any one or more of the New England States, who may be, but need not be a lawyer, and (iii) a person with professional experience in and substantial knowledge of power markets in any one or more of the New England States, who may, but need not be, a lawyer (collectively, the "Arbitration Panel"). For purposes of this Arbitration Agreement, an arbitrator or candidate shall be considered "neutral" only if the arbitrator or candidate has not previously served as an arbitrator for a Party or one of its affiliates or guarantors and is not a present or former lawyer, employee or consultant of a Party or any of its affiliates or guarantors.

(b) Any Party entitled to commence arbitration hereunder shall do so by serving a written Notice of Arbitration briefly describing the Arbitrable Claims and the Agreements under which they are brought. Service of such Notice of Arbitration shall be complete upon receipt by the person designated for each party at the addresses specified in Section 12 below.

Contains Privileged and Confidential Information
Do Not Release

(c) Within twenty (20) days after service of a Notice of Arbitration, each Party shall serve upon the other Party a list of seven neutral candidates for each of the three panel members described in subparagraph (a) above.

(d) Within twenty (20) days after service of the lists referred to in subparagraph (c), NECO and Seller shall then strike from the other's lists any two candidates from each of the lists, for any reason whatsoever. For the remaining candidates each Party shall rank each candidate on its three lists from one to five and shall do the same for the other Party's lists.

(e) The candidates in each of the three categories with the lowest total score shall be invited to serve as panel members. In the event that the candidate in any of the three categories with the lowest total score is unable or unwilling to serve, or has a potential conflict of interest not consented to by each Party, then the candidate with the next lowest score in that category shall be invited to serve, subject to full disclosure by each candidate of, and consent by each Party to any potential conflicts of interests. This process shall be repeated until a full arbitration Panel is selected or the list of candidates for that category is exhausted. If the list of candidates for a category is exhausted the Parties shall exchange a new list of candidates for that category and the procedures set forth above shall be repeated a second time.

(f) If the parties cannot select a full Arbitration Panel in accordance with these procedures then any Party may request that a court of competent jurisdiction appoint the remaining members subject to their qualifications, willingness and ability to serve as provided above.

(g) The American Arbitration Association shall be appointed to facilitate and administer the parties' compliance with the procedures set forth above.

4. Time Schedule

The Arbitration shall be conducted as expeditiously as possible. The Arbitration Panel shall schedule a pre-hearing conference and hearings as it deems advisable and shall use its best efforts to schedule consecutive days of hearings. Hearings shall be limited to a total of ten (10) days. The Arbitration Panel shall issue its final decision and award within thirty (30) days of the close of the hearings, which shall be accompanied by a written, reasoned opinion.

5. Remedies

(a) The Arbitration Panel shall not award punitive or multiple damages or any other damages not measured by the prevailing Party's actual damages - except that the Arbitration Panel, in its sole discretion, may shift all or a portion of the costs of the Arbitration to any Party.

(b) Any award of damages by the Arbitration Panel shall be determined, limited and controlled by the damages limitation clauses of the Service Agreement applicable to the dispute before the Arbitration Panel.

(c) The Arbitration Panel may, in its discretion, award pre-award and post-award interest on any damages award; provided, however, that the rate of pre-award or post-award interest shall not exceed a rate equal to the rate provided for post-judgment interest by 28 U.S.C. § 1961 as published from time to time by the Administrative Office of the United States Courts based on the equivalent coupon issue yield for auctions of 52-week Treasury bills.

6. Confidentiality

The existence, contents, or results of any mediation or arbitration hereunder may not be disclosed without the prior written consent of both Parties; provided, however, either Party may make disclosures as may be necessary to fulfill regulatory obligations to any regulatory bodies having jurisdiction, and may inform their lenders, affiliates, auditors and insurers, as necessary, under pledge of confidentiality and can consult with experts as required in connection with the arbitration under pledge of confidentiality. If any Party seeks preliminary injunctive relief from any court to preserve the status quo or avoid irreparable harm pending mediation or arbitration, the Parties agree to use best efforts to keep the court proceedings confidential, to the maximum extent permitted by law.

7. FERC Jurisdiction over Certain Disputes

(a) Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, any Party from filing a petition or complaint with the Federal Energy Regulatory Commission ("FERC") with respect to any Arbitrable Claim. In such case, the other Party may request FERC to reject or to waive jurisdiction. If the FERC rejects or waives jurisdiction, with respect to all or a portion of the claim, the portion of the claim not so accepted by FERC shall be resolved through arbitration, as provided in this Arbitration Agreement. To the extent that FERC asserts or accepts jurisdiction over the claim, the decision, finding of fact, or order of FERC shall be final and binding, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings.

(b) The Arbitration Panel shall have no authority to modify, and shall be conclusively bound by, any decision, finding of fact, or order of FERC. However, to the extent that a decision finding of fact, or order of FERC does not provide a final or complete remedy to the Party seeking relief, such Party may proceed to arbitration under this Arbitration Agreement to secure such remedy, subject to the FERC decision, finding or order.

8. Preliminary Injunctive Relief

Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, the resort by either Party to a court of competent jurisdiction solely for the purposes of securing a temporary or preliminary injunction to preserve the status quo or avoid irreparable harm pending mediation or arbitration pursuant to this Arbitration Agreement.

9. Governing Law

This Arbitration Agreement shall be construed, enforced in accordance with, and governed by, the laws of the State of Rhode Island.

10. Location of Arbitration

Any arbitration hereunder shall be conducted in Boston, Massachusetts.

11. Severability

If any section, subsection, sentence, or clause of this Arbitration Agreement is adjudged illegal, invalid, or unenforceable, such illegality, invalidity, or enforceability shall not affect the legality, validity, or enforceability of the Arbitration Agreement as a whole or of any section, subsection, sentence or clause hereof not so adjudged.

12. Notices

Any notices required to be given pursuant to this Arbitration Agreement shall be in writing and sent to the receiving party by (i) certified mail, return receipt requested, (ii) overnight delivery service, or (iii) facsimile transmission (confirmed by telephone), addressed to the receiving party at the address shown below or such other address as a party may subsequently designate in writing. Any such notice shall be deemed to be given (i) three days after deposit in the United States mail, if sent by mail, (ii) when actually received if sent by overnight delivery service, or (iii) when sent, if sent by facsimile and confirmed by telephone.

If to NECO: The Narragansett Electric Company
25 Research Drive
Westborough, Massachusetts 01582
Attention: General Counsel
Facsimile: (508) 389-2463

If to Seller

Attention: _____
Facsimile: () - _____

In addition, the parties shall send copies of any notices required by the terms of any of the Agreements, in accordance with the terms of each Agreement.

IN WITNESS WHEREOF, Each Party has caused its duly authorized officers to execute this Arbitration Agreement on the dates set forth below.

THE NARRAGANSETT ELECTRIC COMPANY

BY: _____

Its _____

USGEN NEW ENGLAND, INC.

BY: _____

Its _____

**SECOND
AMENDED AND RESTATED
WHOLESALE STANDARD OFFER SERVICE AGREEMENT**

WHOLESALE STANDARD OFFER
SERVICE AGREEMENT

between

THE NARRAGANSETT ELECTRIC COMPANY

and

USGEN NEW ENGLAND, INC.

Dated as of September 1, 1998

SECOND AMENDED AND RESTATED WHOLESALE STANDARD OFFER SERVICE AGREEMENT

This **SECOND AMENDED AND RESTATED WHOLESALE STANDARD OFFER SERVICE AGREEMENT** ("Agreement") is dated as of September 1, 1998 and is by and between THE NARRAGANSETT ELECTRIC COMPANY, a Rhode Island corporation ("NECO"), and USGen New England, Inc., a Delaware corporation ("Seller"), and amends and restates and super-sedes in its entirety the Amended and Restated Wholesale Standard Offer Service Agreement dated as of October 29, 1997 between NECO and Seller. This Agreement provides for the purchase by NECO and the sale by Seller of Wholesale Standard Offer Service, as defined in this Agreement.

ARTICLE 1. BASIC UNDERSTANDINGS

NECO purchases all of its requirements of electricity for resale to its retail electric customers from its affiliate, New England Power Company ("NEP").

NEP, NECO and other parties have entered into an agreement in settlement of regulatory proceedings before the Federal Energy Regulatory Commission (the "Rhode Island Restructuring Agreement") that, among other things, implements certain requirements of the Rhode Island Utility Restructuring Act of 1996 (the "Act"), permits NECO to terminate wholesale purchases from NEP, permits current retail customers of NECO to purchase electricity from other suppliers on and after a date defined therein as the "Retail Access Date," or, for a limited time, to purchase Standard Offer Service from NECO, obligates NEP to supply NECO with power sufficient to meet the latter's obligations to supply Standard Offer Service, and obligates NEP to transfer its interests in the electric generating business to another party or parties.

NEP, NECO, and Seller have entered an agreement under which Seller will acquire certain NEP and NECO generating assets.

NEP and Seller desire that Seller shall supply electric capacity and energy to NECO to fulfill a portion of NEP's power supply obligations under the Rhode Island Restructuring Agreement.

Under the Rhode Island Restructuring Agreement, NECO is obligated to afford wholesale power suppliers other than NEP the opportunity to commit to supply NECO with power sufficient to meet NECO's obligation to supply retail Standard Offer Service after the Retail Access Date.

This Agreement sets forth the terms under which Seller will supply Wholesale Standard Offer Service to NECO, for a period beginning on the Closing Date, to enable NECO to meet the needs of its retail customers for electricity, including all or a portion of the needs of customers receiving retail Standard Offer Service after the Retail Access Date.

ARTICLE 2. DEFINITIONS

The following words and terms shall be understood to have the following meanings when used in this Agreement, or in any associated documents entered into in conjunction with this Agreement. In addition, except as otherwise expressly provided, where terms used in this Agreement are defined in the NEPOOL Agreement and not otherwise defined herein, such definitions are expressly incorporated into this Agreement by reference.

Affiliate of NECO - Any company that is a subsidiary of New England Electric System and its successors.

Closing Date - The date upon which the Seller acquires ownership of generating assets it purchases from NEP.

Commission or FERC - The Federal Energy Regulatory Commission or such successor federal regulatory agency as may have jurisdiction over this Agreement.

Contract Termination Date - The date established by the Rhode Island Restructuring Agreement when the respective obligations of NEP and NECO under NEP's FERC Electric Tariff, Original Volume No. 1, to sell and purchase wholesale electric requirements service shall cease. The Contract Termination Date occurred on January 1, 1998.

GWh - Gigawatt hour.

ISO - The Independent System Operator to be established in accordance with the NEPOOL Agreement and the Interim Independent System Operator Agreement as amended, superseded or restated from time to time.

kWh - Kilowatt- hour.

MECO - Massachusetts Electric Company.

MECO Wholesale Standard Offer Service Agreement - The Wholesale Standard Offer Service Agreement of even date herewith between MECO and the Seller.

NECO's Service Territory - The geographic area in which NECO provided electric service to retail customers on August 6, 1996.

NECO's System - The electrical system of NECO and/or the electrical system of any Affiliate of NECO.

MMBtu - Million British thermal units.

NEP - New England Power Company, an Affiliate of NECO.

NEPEX - The New England Power Exchange.

NEPOOL - The New England Power Pool.

NEPOOL Agreement - The New England Power Pool Agreement dated as of September 1, 1971, as amended and as may be amended or restated from time to time.

Price - The price set forth in SECTION 5.1, below.

Prime Rate - The prime (or comparable) rate announced from time to time as its prime rate by the Bank of Boston or its successor, which rate may differ from the rate offered to its more substantial and creditworthy customers.

PTF - Facilities categorized as Pool Transmission Facilities under the NEPOOL Agreement.

Retail Access Date - The date so defined under the Rhode Island Restructuring Agreement. The Retail Access Date occurred on January 1, 1998.

Rhode Island Restructuring Agreement - The Offer of Settlement dated May 30, 1997, entered into by and among the RIPUC, the Rhode Island Division of Public Utilities and Carriers, NECO, and NEP, as amended and accepted or approved by the FERC.

RIPUC - The Rhode Island Public Utilities Commission.

Standard Offer Auction - The solicitation by NECO of offers from wholesale power suppliers, including, at their option, NEP and Seller, of electric energy and associated capacity and ancillary services necessary to meet the needs of ultimate customers of NECO eligible for and accepting retail Standard Offer Service on or after the Retail Access Date, and any wholesale electric supply contracts resulting from that solicitation. The solicitation and any contract(s) entered into as a result thereof shall not be on terms that are materially different from those described by MECO in the Massachusetts Restructuring Agreement (as defined in the MECO Wholesale Standard Offer Service Agreement), the RFQ dated April 3, 1997, and the letter to potential asset purchasers dated June 16, 1997, or result in a material adverse impact on Seller. NECO shall not, without Seller's consent, conduct the Standard Offer Auction more than once or more than six (6) months prior to the Retail Access Date, which date shall be as reasonably determined by NECO.

Standard Offer Service - The electric service provided by NECO pursuant to the Rhode Island Restructuring Agreement: (i) to retail customers in NECO's Service Territory during the period, if any, during the term of this Agreement preceding the Retail Access Date; and (ii) to NECO's retail customers on the Retail Access Date that do not elect to obtain their electric supply from an alternative supplier on or after the Retail Access Date through December 31, 2009.

Wholesale Access Date - The date so defined under the Rhode Island Restructuring Agreement, as the date on which NECO in its sole discretion decides to terminate its purchase from NEP of wholesale requirements service pursuant to NEP's FERC Electric Tariff, Original Volume No. 1, by providing the Commission and the Signatories to the Rhode Island Restructuring Agreement with 90 days advance notice in writing, said date not to be earlier than January 1, 1998.

Wholesale Standard Offer Service - The generation and delivery, to any location on the NEPOOL PTF system or NECO's system, of the portion of the electric capacity, energy and ancillary services required by NECO to meet the needs of NECO's ultimate customers taking Standard Offer Service, excluding, after the Retail Access Date, any portion of such requirements that NECO has contracted to obtain through the Standard Offer Auction, determined in accordance with ARTICLE 4. Seller, as the supplier of Wholesale Standard Offer Service capacity and energy, will be responsible for all present, or future requirements and associated costs for installed capability, operable capability, energy, operating reserves, and automatic generation control, including tie benefit payments, losses and any congestion charges associated with Seller's supply of Wholesale Standard Offer Service and any other requirements imposed by NEPOOL or the ISO, as they may be in effect from time to time. To the extent that any NEPOOL, ISO or any successor entity expenses or uplift costs are allocated to wholesale suppliers, the portion of such costs associated with Seller's supply of Standard Offer Service will also be the responsibility of Seller. To the extent any costs contemplated by this paragraph are applicable to NECO and recoverable by NECO from its customers, NECO shall be responsible for such costs.

ARTICLE 3. TERM AND REGULATORY APPROVAL

3.1 Term

The term of this Agreement shall begin at 12:01 am on the Closing Date and continue until the earlier of: (a) 11:59 p.m. on December 31, 2009; or (b) the first date that NECO has no requirements for electric capacity and energy to supply Standard Offer Service that are not satisfied by contracts resulting from the Standard Offer Auction.

3.2 Obtaining and Maintaining Required Permits

(a) Performance under this Agreement is conditioned upon both Parties securing and maintaining such federal, state or local approvals, grants or permits as may be necessary for the sale and purchase of Wholesale Standard Offer Service, which shall not include any approvals, grants, or permits necessary for the operation of any particular generating facility. Each Party shall use reasonable efforts to acquire and maintain such approvals, grants or permits. If the acquisition or maintenance of a particular approval, grant, or permit requires a modification to this Agreement, then the Parties agree to negotiate in good-faith to reach a mutually agreeable modification of the Agreement. The Parties are not required to reach such a mutually acceptable modification.

(b) Seller will file this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) in accordance with the provisions of applicable laws, rules and regulations. Seller will be responsible for any filing fees for filing this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) and for any regulatory assessments associated with sales under this Agreement. FERC approval of this Agreement shall be a condition to the obligations of the Parties hereunder.

ARTICLE 4. SALE AND PURCHASE

4.1 Wholesale Standard Offer Service

Seller shall sell and deliver to the Delivery Points, as defined in ARTICLE 6, SECTION 6.1, and NECO shall purchase 90.78% of NECO's requirements for Wholesale Standard Offer Service. NECO's requirements for Wholesale Standard Offer Service shall be determined on the basis of ARTICLE 6, SECTION 6.3, below, and the price for such sale and purchase shall be as set forth in ARTICLE 5, SECTION 5.1, below.

4.2 Dispatchable Load Credits

Seller shall have the right, but not the obligation, to elect to purchase a portion of the peak load reduction credits, if any, as provided for in NEPOOL Criteria, Rules and Standards No. 16, associated with NECO's retail customers which are taking Standard Offer Service and which are taking service under NECO's Cooperative Interruptible Service Provision (as defined in NECO's tariffs on file with RIPUC) ("Dispatchable Load Credits"), during the period commencing at 0001 hours on the Closing Date and ending at 2400 hours on October 31, 1998 (the "Option Period"). Seller may purchase such credits for any, all, or any combination of calendar months during the Option Period.

In order to receive such credits, Seller shall provide NECO with written notice of such election at least seven days prior to the requested start date. Such notice shall include: (i) the requested start

date, which shall be the first day of a calendar month, (ii) the requested end date, which shall be the last day of a calendar month, and (iii) the fixed amount per month of Dispatchable Load Credits (the "Seller's Election"), which shall not exceed 90.78% of the minimum load reduction actually experienced by NECO during the most recent 12 month period, excluding for such period months in which interruptions occurred ("Load Reductions").

In the event Seller does not provide a timely notice of election for any month, Seller's election for such month will be presumed to be zero (0) kilowatts.

NECO will provide Seller during each month of this Agreement with a report on (i) the quantity of Load Reductions for the preceding month and (ii) the number of customers (and associated nominal interruptible load), if any, which ceased taking service under NECO's Cooperative Interruptible Service Provision during the preceding month.

ARTICLE 5. PRICE AND BILLING

5.1 Price

(a) For each kilowatt hour of Wholesale Standard Offer Service that Seller delivers to the Delivery Points, in accordance with ARTICLE 6, SECTION 6.3, below, NECO shall pay Seller a price equal to the following amounts for each period during the term of this Agreement:

Period	Price in Cents per kWh
1998	3.2 Cents
1999	3.5 Cents
2000	3.8 Cents
2001	3.8 Cents
2002	4.2 Cents
2003	4.7 Cents
2004	5.1 Cents
2005	5.5 Cents
2006	5.9 Cents

2007	6.3 Cents
2008	6.7 Cents
2009	7.1 Cents

In addition, in the event of increases in the market price of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999 as described in Appendix A, NECO shall pay Seller additional amounts in accordance with the Standard Offer Fuel Adjustment Provision, described in Appendix A, attached and incorporated herein by reference.

(b) For any month in which Seller elects to receive Dispatchable Load Credits, in accordance with ARTICLE 4, SECTION 4.2, for each kilowatt of Seller's Election, NECO shall be entitled to a reduction in the amount owed to Seller by NECO pursuant to paragraph (a) above at a value calculated pursuant to the second paragraph of ARTICLE 5, SECTION 5.2, using the following rates ("Option Price"):

Month Of Transfer	Option Price in Dollars per KW Month
January, February, July, August, September, December	\$3.125
March, April, May, June, October, November	\$1.875

5.2 Payment

(a) On or before the tenth (10th) day of each month during the term of this Agreement, NECO shall: (i) calculate the amount due and payable to Seller pursuant to this ARTICLE 5 with respect to the preceding month; and (ii) advise Seller of the schedule upon which it shall pay the amount so calculated, which schedule shall comply with paragraph (b), below.

The amount payable shall be calculated by (i) multiplying the Price specified in the first paragraph of ARTICLE 5, SECTION 5.1, above, for the applicable Contract Period by the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points for NECO's Standard Offer Service customers in the month, as determined in accordance with ARTICLE 6, SECTION 6.3, below and then subtracting the result obtained by (ii) multiplying the Option Price specified in the second paragraph of ARTICLE 5, SECTION 5.1, above, for the applicable month by the Seller's Election for the applicable month, as determined and certified as true and accurate, by Seller.

Because quantities determined under SECTION 6.3 are estimated, subject to a reconciliation process described in SECTION 6.3(d), quantities used in calculations under this paragraph (a) shall be subject to adjustment, whether positive or negative, in subsequent months' calculations, to reflect that reconciliation process, and any adjusted quantities shall be applied to the Price applicable during the month of the calculation being adjusted. Additional amounts due Seller, if any, from the Standard Offer Fuel Adjustment Provision shall be added to such amount.

(b) NECO shall pay Seller any amounts due and payable on or before the twenty-fifth (25th) day after the date a calculation is made pursuant to paragraph (a), provided that, if and to the extent NECO pays Seller any portion of the amount due and payable before the twenty-fifth (25th) day after a calculation is made, it shall be entitled, without interest or penalty, to defer payment of an equal portion of the amount due and payable for that month by the lesser of: (i) the same number of days that the early payment preceded the twenty-fifth day after the calculation; and (ii) twenty-five (25) days. If all or any part of any amount due and payable pursuant to paragraph (a) shall remain unpaid thereafter, interest shall thereafter accrue and be payable to Seller on such unpaid amount at a rate per annum equal to two percent (2%) above the Prime Rate in effect on the date of such bill; provided, however, if the amount due and payable is disputed, interest shall accrue and be payable to Seller on the unpaid amount finally determined to be due and payable at a rate per annum equal to the Prime Rate in effect on the date of the calculation pursuant to paragraph (a); and provided, further, no interest shall accrue in favor of Seller or NECO on amounts that are added to or credited against a calculation due to the adjustment of estimated quantities in accordance with paragraph (a) and ARTICLE 6, SECTION 6.3.

(c) With respect to reconciliation adjustments pursuant to SECTION 6.3(d) or any error in a calculation (whether the amount is paid or not), any overpayment, underpayment, or reconciliation adjustment will be refunded or paid up, as appropriate. Interest shall accrue from the date of the error or adjustment on the unpaid or overpaid amount finally determined to be due and shall be calculated pursuant to Section 35.19a of the Commission regulations.

5.3 Taxes, Fees and Levies

Seller shall be obligated to pay all present and future taxes, fees and levies which may be assessed upon Seller by any entity upon the purchase or sale of electricity covered by the Agreement. To the extent such taxes, fees, and levies are allowed to be, and are actually, recoverable by NECO from its customers, NECO shall reimburse Seller for such taxes, fees, and levies paid by Seller. It is expressly agreed that Seller shall not be responsible for, and shall be held harmless from, the Rhode Island Tax on gross receipts or earnings (Public Service Corporation Tax, Chapter 44-13 of the Rhode Island General Laws, as amended or superseded).

ARTICLE 6. DELIVERY, LOSSES, AND DETERMINATION AND REPORTING OF HOURLY LOADS

6.1 Delivery

All electricity shall be delivered to NECO in the form of three-phase sixty-hertz alternating current at any location on the NEPOOL PTF system or NECO's System ("Delivery Points"). Title shall pass to NECO at the Delivery Point and Seller shall incur no expense or risk beyond the Delivery Point other than those described in SECTION 6.2. If the NEPOOL control area experiences congestion, Seller will be responsible for any congestion costs incurred in delivering power across the PTF system to NECO to the extent such costs are imposed by NEPOOL or the ISO on suppliers. Seller shall be responsible for all transmission and distribution costs associated with the use of transmission systems outside of NEPOOL and any local point to point charges and distribution charges needed to deliver the power to the NEPOOL PTF.

6.2 Losses

Seller shall be responsible for all transmission and distribution losses associated with the delivery of electricity supplied under this Agreement to the meters of ultimate customers of NECO receiving retail Standard Offer Service, provided, however, that losses do not include service to unmetered facilities for which estimates of kWh use are available and provided, further, that Seller shall not be responsible for unmetered use or consumption of electricity by NECO's Affiliates. Seller shall provide NECO at the Delivery Points with additional quantities of electricity and ancillary services to cover such losses, but Seller shall not be entitled to payment under ARTICLE 5 of this Agreement for such additional quantity. The quantities required for this purpose in each hour of a billing period shall be determined in accordance with NEPOOL's, NEP's and NECO's filed procedures for loss determination.

6.3 Determination and Reporting of Hourly Loads

(a) To meet its NEPOOL obligations, Seller, or a NEPOOL member having an own-load dispatch or settlement account with the NEPOOL billing system with whom Seller has a load inclusion agreement, must report to NEPOOL or the ISO the Standard Offer Service load for which Seller is providing Wholesale Standard Offer Service pursuant to this Agreement, including losses. To accomplish this, NECO will estimate its total hourly Standard Offer Service load based upon average load profiles developed for each NECO customer class and NECO's actual total hourly load. Appendix B, attached and incorporated herein by reference, provides a general description of the estimation process that NECO will initially employ (the "Estimation Process"). NECO reserves the right, subject to the approval of appropriate regulatory authorities having jurisdiction to modify the Estimation Process in the future, provided that any such modification be designed to improve the accuracy of its results, and provided further that NECO shall consult with Seller and other similarly situated sellers to the maximum extent permitted by any applicable standards of conduct. NECO will

report to NEPOOL, on behalf of Seller or such other NEPOOL member, Seller's hourly Standard Offer Service load, which shall equal the portion of NECO's estimated total Standard Offer Service hourly load for which Seller is responsible for supplying Wholesale Standard Offer Service under this Agreement.

(b) NECO will report to NEPOOL or the ISO Seller's hourly adjusted Standard Offer Service loads by 1:00 p.m. of the second following business day. This adjusted load should be added by NEPOOL or the ISO to the other NEPOOL load of Seller or such other NEPOOL member.

(c) At the end of each month, NECO shall aggregate Seller's hourly loads for the month as determined by the Estimation Process. For purposes of SECTION 5.1, above, the result of the Estimation Process, less losses to the Standard Offer Service customers' meters determined as specified in ARTICLE 6 SECTION 6.2, above, will be deemed to be the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points in a month.

(d) To refine the estimates of Seller's monthly Standard Offer Service load developed by the Estimation Process, a monthly calculation will be performed to reconcile the original estimate of Seller's Standard Offer Service loads to actual customer usage based on meter reads. NECO will apply any resulting billing adjustment (debit or credit) to Seller's account no later than the last day of the third month following the billing month. Appendix B, attached and incorporated herein by reference, also provides a general description of this reconciliation process.

ARTICLE 7. DEFAULT AND TERMINATION

7.1 Material Breach and Termination

- (a) (i) If NECO fails in any material respect to comply with, observe or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to Seller's wrongful act or wrongful failure to act); and
- (ii) After receipt of written notice from Seller such failure continues for the Cure Period (as defined below), or, if such failure cannot be reasonably cured within the Cure Period, such further period as shall reasonably be required to effect such cure (except in the case of a payment default), provided that NECO commences within the Cure Period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then
- (iii) Seller shall have the right to terminate this Agreement, subject to paragraph (c) below. For purposes of this Section 7.1(a), the Cure Period shall mean five days in the case of a failure by NECO to fulfill its payment obligations pursuant

to Section 5.2 and forty-five (45) days in the case of a failure by NECO to comply with, observe or perform any other covenant, warranty or obligation under this Agreement. If an unexcused failure to pay continues for fifteen (15) days, Seller shall have the right to suspend service until payment is made in full and appropriate security is posted for future payments or to terminate this Agreement.

- (b) (i) If Seller fails in any material respect to comply with, observe, or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to NECO's wrongful act or wrongful failure to act); and
- (ii) After receipt of written notice from NECO such failure continues for a period of forty-five (45) days, or, if such failure cannot be reasonably cured within such forty-five (45) day period, such further period as shall reasonably be required to effect such cure, provided that Seller commences within such forty-five (45) day period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then
- (iii) NECO shall have the right to terminate this Agreement, subject to paragraph (c) below.

(c) Any termination arising out of the exercise of the termination rights specified in paragraphs (a) or (b) above (with the exception of termination for a payment default) may not take effect unless and until an arbitrator (pursuant to ARTICLE 14, SECTION 14.2 of this Agreement) has made a ruling that the exercise of such termination right was valid. The fact that one party alleged to be in material breach of this Agreement ("Alleged Breaching Party") complies with the request of the other to cure an alleged material breach shall not be considered by the arbitrator as an admission against the Alleged Breaching Party or evidence that such party was or was not in material breach.

(d) Nothing in this SECTION 7.1 shall be construed to limit the right of any party to seek any remedies for damages, as limited by ARTICLE 9 of this Agreement, even if a cure of an alleged breach is made within the periods of time specified for curing any such breach stated above. The provisions of this SECTION 7.1 are intended only to provide the exclusive process through which one party may exercise and effectuate its right to terminate this Agreement as a result of a material breach of this Agreement.

ARTICLE 8. NOTICES, REPRESENTATIVES OF THE PARTIES

8.1 Notices

Any notice, demand, or request required or authorized by this Agreement to be given by one party to another party shall be in writing. It shall either be sent by facsimile (confirmed by telephone), overnight courier, personally delivered and acknowledged in writing or by registered or certified mail, (return receipt requested) postage prepaid, to the representative of the other party designated in this ARTICLE 8. Any such notice, demand, or request shall be deemed to be given (i) when sent by facsimile confirmed by telephone, (ii) when actually received if delivered by courier or personal deliver or (iii) three (3) days after deposit in the United States mail, if sent by first class mail.

Notices and other communications by Seller to NECO shall be addressed to:

The Narragansett Electric Company
c/o New England Power Service Company
25 Research Drive
Westborough, MA 01582
Attention: Michael J. Hager
Fax: (508) 389-2463

Notices and other communications by NECO to Seller shall be addressed to:

USGen New England, Inc.
7500 Old Georgetown Road, 13th Floor
Bethesda, MD 20814
Attention: Stephen A. Herman
Fax: (301) 718-6913

Any party may change its representative by written notice to the others.

8.2 Authority of Representative

The parties' representatives designated in ARTICLE 8, SECTION 8.1 shall have full authority to act for their respective principals in all technical matters relating to the performance of this Agreement. They shall not, however, have the authority to amend, modify, or waive any provision of this Agreement unless they are authorized officers of their respective entities.

ARTICLE 9. LIABILITY, INDEMNIFICATION, AND RELATIONSHIP OF PARTIES

9.1 Limitation on Consequential, Incidental and Indirect Damages

To the fullest extent permissible by law, neither NECO nor Seller, nor their respective officers, directors, agents, employees, parent or affiliates, successor or assigns, or their respective officers, directors, agents, or employees, successors, or assigns, shall be liable to the other party or its parent, subsidiaries, affiliates, officers, directors, agents, employees, successors or assigns, for claims, suits, actions or causes of action for incidental, indirect, special, punitive, multiple or consequential damages (including attorney's fees or litigation costs) connected with or resulting from performance or non-performance of this Agreement, or any actions undertaken in connection with or related to this Agreement, including without limitation any such damages which are based upon causes of action for breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, Rhode Island Gen. Laws Title 6, c. 13.1, statute, operation of law, or any other theory of recovery. The provisions of this SECTION 9.1 shall apply regardless of fault and shall survive termination, cancellation, suspension, completion or expiration of this Agreement.

9.2 Recovery of Direct Damages Permitted

Notwithstanding the provisions of ARTICLE 9, SECTION 9.1, subject to the duty to mitigate damages as provided under common law of damages recovery, both NECO and Seller shall be entitled to recover their actual, direct damages (i) incurred as a result of the other party's breach of this Agreement or (ii) incurred as a result of any other claim arising out of any action undertaken in connection with or related to this Agreement. For purposes of avoiding any disputes about the difference between direct damages and consequential damages, the parties agree as follows:

- (a)
 - (1) To the extent that NECO is found to be in breach of this Agreement or liable under another cause of action; and
 - (2) as a result of such breach or event giving rise to the cause of action, Seller suffers loss of profits that Seller reasonably expected to have received from NECO under this Agreement had NECO performed under this Agreement; then
 - (3) Seller shall be entitled to recover any lost profits that Seller can demonstrate it lost or will lose as a result of NECO's breach, subject to the duty to mitigate.
- (b)
 - (1) To the extent that Seller fails to provide NECO Wholesale Standard Offer Service Power under the terms of this Agreement; and

- (2) as a result, Seller is found to be in material breach of this Agreement or liable under another cause of action; and
- (3) subject to the duty to mitigate, NECO purchases (as a result of Seller's failure) power from a third party at a price that is higher than what NECO would have paid under the terms of this Agreement, NECO may recover the difference between the price NECO paid to such third party and the price it would have paid had Seller performed; provided, however, Seller shall not be liable to NECO for lost profits associated with any expected revenue streams from the sale of power to third parties or lost profits from any other contracts or sales.

(c) Except as provided in paragraphs (a) and (b) above, neither NECO nor Seller shall be liable to the other for lost profits arising out of performance, or non-performance of this Agreement, whether such lost profits may be categorized as direct, incidental, indirect, or consequential damages and irrespective of whether such claims are based upon warranty, tort, strict liability, contract, statute (including R.I. G.L. Title 6, c. 13.1), operation of law or otherwise.

9.3 Indemnification

(a) Seller agrees to defend, indemnify and save NECO, its officers, directors, employees, agents, successors, assigns, and Affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by Seller, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of NECO or their successors or assigns.

(b) NECO agrees to defend, indemnify and save Seller, its officers, directors, employees, agents, successors, assigns, and affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by NECO, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of Seller or their successors or assigns.

(c) If any party intends to seek indemnification under this ARTICLE from the other party with respect to any action or claim, the party seeking indemnification shall give the other party notice of such claim or action within fifteen (15) days of the commencement of, or actual knowledge of, such claim or action. Such party seeking indemnification shall have the right, at its sole cost and expense, to participate in the defense of any such claim or action. The party seeking indemnification shall not compromise or settle any such claim or action without the prior consent of the other party, which consent shall not be unreasonably withheld.

9.4 Independent Contractor Status

Nothing in this Agreement shall be construed as creating any relationship between NECO and Seller other than that of independent contractors for the sale and purchase of electricity provided as Wholesale Standard Offer Service.

ARTICLE 10. ASSIGNMENT

10.1 Assignment

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto, including by operation of law without the prior written consent of the other party, nor is this Agreement intended to confer upon any other Person except the parties hereto any rights or remedies hereunder. Notwithstanding the foregoing, (i) NECO may, without Seller's prior written consent, (A) assign all or a portion of its rights and obligations under this Agreement to any Affiliate of NECO or (B) assign its rights and obligations hereunder, or transfer such rights and obligations by operation of law, to any corporation or other entity with which or into which NECO shall merge or consolidate or to which NECO shall transfer all or substantially all of its assets, provided that such Affiliate or other entity agrees to be bound by the terms thereof; provided, in either case, that the assignee or transferor shall have senior securities rated investment grade or better; (ii) the Seller may assign all of its rights and obligations hereunder to any wholly owned Subsidiary (direct or indirect) of PG&E Corporation and upon NECO's receipt of notice from Seller of any such assignment, the Seller will be released from all liabilities and obligations hereunder, accrued and unaccrued, such assignee will be deemed to have assumed, ratified, agreed to be bound by and perform all such liabilities and obligations, and all references herein to "Seller" shall thereafter be deemed references to such assignee, in each case without the necessity for further act or evidence by the parties hereto or such assignee; provided, however, that no such assignment and assumption shall release the Buyer from its liabilities and obligations hereunder unless the assignee shall have acquired all or substantially all of the Buyer's assets; provided, further, however, that no such assignment and assumption shall relieve or in any way discharge PG&E Corporation from the performance of its duties and obligations under the Guaranty dated as of the date of this Agreement executed by PG&E Corporation, and (iii) the Seller or its permitted assignee may assign, transfer, pledge or otherwise dispose of its rights and interests hereunder to a trustee or lending institution(s) for the purposes of financing or refinancing the Purchased Assets, including upon or pursuant to the exercise of remedies under such financing or refinancing, or by way of assignments, transfers, conveyances or dispositions in lieu thereof; provided, however, that no such assignment or disposition shall relieve or in any way discharge the Seller or such assignee from the performance of its duties and obligations under this Agreement. NECO agrees to execute and deliver such documents as may be reasonably necessary to accomplish any such assignment, transfer, conveyance, pledge or disposition of

rights hereunder so long as NECO's rights under this Agreement are not thereby altered, amended, diminished or otherwise impaired.

ARTICLE 11. FORCE MAJEURE

11.1 Force Majeure Standard

The parties shall be excused from performing their respective obligations hereunder and shall not be liable in damages or otherwise, if and only to the extent that they are unable to so perform or are prevented from performing by an event of force majeure.

11.2 Force Majeure Definition

An event of force majeure includes, without limitation, storm, flood, lightning, drought, earthquake, fire, explosion, equipment failure, civil disturbance, labor dispute, act of God or the public enemy, action of a court or public authority, or any other cause beyond a party's control, but only if and to the extent that the event directly affects the availability of the transmission or distribution facilities of NEPOOL, NECO or an Affiliate necessary to deliver Wholesale Standard Offer Service to NECO's customers. Events affecting the availability or cost of operating any generating facility shall not be events of force majeure.

11.3 Obligation to Diligently Cure Force Majeure

If any party shall rely on the occurrence of an event or condition described in ARTICLE 11, SECTION 11.2, above, as a basis for being excused from performance of its obligations under this Agreement, then the party relying on the event or condition shall:

- a. provide written notice to the other parties promptly but in no event later than 5 days of the occurrence of the event or condition giving an estimation of its expected duration and the probable impact on the performance of its obligations hereunder;
- b. exercise all reasonable efforts to continue to perform its obligations hereunder;
- c. expeditiously take reasonable action to correct or cure the event or condition excusing performance; provided that settlement of strikes or other labor disputes will be completely within the sole discretion of the party affected by such strike or labor dispute;
- d. exercise all reasonable efforts to mitigate or limit damages to the other parties to the extent such action will not adversely affect its own interests; and

- e. provide prompt notice to the other parties of the cessation of the event or condition giving rise to its excuse from performance.

ARTICLE 12. WAIVERS

The failure of either party to insist in any one or more instance upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights under this Agreement shall not be construed as a general waiver of any such provision or the relinquishment of any such right, but the same shall continue and remain in full force and effect, except with respect to the particular instance or instances.

ARTICLE 13. REGULATION

13.1 Laws and Regulations

This Agreement and all rights, obligations, and performances of the parties hereunder, are subject to all applicable Federal and state laws, and to all duly promulgated orders and other duly authorized action of governmental authority having jurisdiction.

13.2 NEPOOL Requirements

This Agreement must comply with all NEPOOL Criteria, Rules, and Standard Operating Procedures (“Rules”). If, during the term of this Agreement, the NEPOOL Agreement is terminated or amended in a manner that would eliminate or materially alter a Rule affecting a right or obligation of a party hereunder, or if such a Rule is eliminated or materially altered by NEPOOL, the parties agree to negotiate in good faith in an attempt to amend this Agreement to incorporate a replacement Rule (“Replacement Rule”). The intent of the parties is that any such Replacement Rule reflect, as closely as possible, the intent and substance of the Rule being replaced as such Rule was in effect prior to such termination or amendment of the NEPOOL Agreement or elimination or alteration of the Rule. If the parties are unable to reach agreement on such an amendment, the parties agree to submit the matter to arbitration under the terms of Appendix C, attached and incorporated herein by reference, and to seek a resolution of the matter consistent with the above stated intent.

ARTICLE 14. INTERPRETATION, DISPUTE RESOLUTION

14.1 Interpretation

The interpretation and performance of this Agreement shall be in accordance with and controlled by the laws of The State of Rhode Island.

14.2 Dispute Resolution

All disputes between NECO and Seller arising out of or relating to this Agreement which are defined as “Arbitrable Claims” in SECTION 2 of Appendix C, attached and incorporated herein by reference, shall be resolved by binding arbitration and be governed by the terms of such Arbitration Agreement. Any arbitration of an Arbitrable Claim that is substantially related to an arbitrable claim under a Wholesale Standard Offer Service Agreement among Seller, Massachusetts Electric Company, and Nantucket Electric Company shall be conducted jointly with the arbitration of the latter claim, before the same panel of arbitrators, with NECO, Massachusetts Electric Company, and Nantucket Electric Company jointly exercising their rights regarding the selection of arbitrators. Any decisions of the arbitrators shall be final and binding upon the parties.

ARTICLE 15. SEVERABILITY

If any provision or provisions of this Agreement shall be held invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

ARTICLE 16. MODIFICATIONS

No modification to this Agreement will be binding on any party unless it is in writing and signed by all parties.

ARTICLE 17. SUPERSESION

This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and its execution supersedes any other agreements, written or oral, between the parties concerning such subject matter.

ARTICLE 18. COUNTERPARTS

This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.

ARTICLE 19. HEADINGS

Article and Section headings used throughout this Agreement are for the convenience of the parties only and are not to be construed as part of this Agreement.

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

THE NARRAGANSETT ELECTRIC
COMPANY

BY:_____

Its_____

USGEN NEW ENGLAND, INC.

BY:_____

Its_____

Appendix A. Standard Offer Fuel Adjustment Provision

In the event of substantial increases in the market prices of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999, NECO will pay additional amounts to Seller in accordance with this Standard Offer Fuel Adjustment Provision, which is calculated as follows:

The Stipulated Price that is in effect for a given billing month is multiplied by a “Fuel Adjustment” that is set equal to 1.0 and thus has no impact on the rate paid unless the “Market Gas Price” plus “Market Oil Price” for the billing month exceeds the “Fuel Trigger Point” then in effect, where:

The Stipulated Price is the following predetermined, flat rate, for energy consumed at the customer meter point:

<u>Calendar Year</u>	<u>Price per Kilowatt hour</u>
1998	3.2 cents
1999	3.5 cents
2000	3.8 cents
2001	3.8 cents
2002	4.2 cents
2003	4.7 cents
2004	5.1 cents
2005	5.5 cents
2006	5.9 cents
2007	6.3 cents
2008	6.7 cents
2009	7.1 cents

Seller will be paid the difference between the Stipulated Price as adjusted in accordance with this Standard Offer Fuel Adjustment Provision and the Stipulated Price for each kilowatt-hour it provides in the applicable month.

Market Gas Price is the average of the values of “Gas Index” for the most recent available twelve months, where:

Gas Index is the average of the daily settlement prices for the last three days that the NYMEX Contract (as defined below) for the month of delivery trades as reported in the “Wall Street Journal”, expressed in dollars per MMBtu. NYMEX Contract shall mean the New York Mercantile Exchange Natural Gas Futures Contract as approved by the

Commodity Futures Trading Commission for the purchase and sale of natural gas at Henry Hub;

Market Oil Price is the average of the values of “Oil Index” for the most recent available twelve months, where:

Oil Index is the average for the month of the daily low quotations for cargo delivery of 1.0% sulphur No. 6 residual fuel oil into New York harbor, as reported in “Platt’s Oilgram U.S. Marketscan” in dollars per barrel and converted to dollars per MMBtu by dividing by 6.3; and

If the indices referred to above should become obsolete or no longer suitable, NECO shall file alternate indices with the RIPUC.

Fuel Trigger Point is the following amounts, expressed in dollars per MMBtu, applicable for all months in the specified calendar year:

2000	\$5.35/MMBtu
2001	\$5.35
2002	\$6.09
2003	\$7.01
2004	\$7.74
2005	\$8.48
2006	\$9.22
2007	\$9.95
2008	\$10.69
2009	\$11.42

In the event that the Fuel Trigger Point is exceeded, the Fuel Adjustment value for the billing month is determined based according to the following formula:

$$\text{Fuel Adjustment} = \frac{(\text{Market Gas Price} + \$0.60/\text{MMBtu}) + (\text{Market Oil Price} + \$0.04/\text{MMBtu})}{\text{Fuel Trigger Point} + \$0.60 + \$0.04/\text{MMBtu}}$$

Where:

Market Gas Price, Market Oil Price and Fuel Trigger Point are as defined above. The values of \$.60 and \$.04/MMBtu represent for gas and oil respectively, estimated basis differentials or market costs of transportation from the point where the index is calculated to a proxy power plant in the New England market.

For example if at a point in the year 2002 the Market Gas Price and Market Oil Price total \$6.50 (\$3.50/MMBtu plus \$3.00/MMBtu respectively), the Fuel Trigger Point of 6.09 would be exceeded. In this case the Fuel Adjustment value would be:

$$\frac{(\$3.50 + \$0.60/\text{MMBtu}) + (\$3.00 + \$0.04/\text{MMBtu})}{\$6.09 + \$0.60 + \$0.04/\text{MMBtu}} = 1.0609$$

The Stipulated Price is increased by this Fuel Adjustment factor for the billing month, becoming 4.4548¢/kWh (4.2 x 1.0609).

In subsequent months the same comparisons are made and, if applicable, a Fuel Adjustment determined.

Appendix B. Estimation of Supplier Hourly Loads

Overview

Generating units operated by suppliers are dispatched by the power pool to meet the region's electrical requirements reliably, and at the lowest possible cost. As a result, a supplier's electricity production may not match the demand of its customers. In each hour some suppliers with low cost production units are net sellers of electricity to the pool, while other suppliers are purchasing power from the pool to meet the demand of their customers. To determine the extent to which suppliers are net buyers or sellers on an hourly basis, it is necessary to estimate the hourly aggregate demand for all of the customers served by each supplier ("own-load"). NECO will estimate Seller's Wholesale Standard Offer Service "own-load" within NECO's service territory and report the hourly results to NEPOOL or the ISO on a daily basis.

The estimation process is a cost effective approach to producing results that are reliable, unbiased and reasonably accurate. The hourly load estimates will be based on rate class load profiles which will be developed from statistically designed samples. Each day, the class load shapes will be scaled to the population of customers served by each supplier. In cases where telemetered data on individual customers are available, they will be used in place of the estimated shapes. On a monthly basis, the estimates will be refined by incorporating actual usage data obtained from meter readings. In both processes, the sum of all suppliers' estimated loads will match the total load delivered into the distribution system. A description of the estimation process follows.

Daily Estimation of Suppliers' Own Load

The daily process estimates the hourly load for each supplier for the previous day. There are five components in this process:

- C Select a proxy date from the previous year with characteristics which best match the day for which the hourly demand estimates are being produced. Extract class load shapes for the selected proxy date from the load research data base.
- C Scale the class load shapes appropriately for each individual customer based on the usage level of the customer relative to the class average usage level.
- C Calculate a factor for each customer which reflects their relative usage level and includes an adjustment for losses ("load adjustment factor"). Aggregate the load adjustment factors across the customers served by each supplier in each class.
- C Produce a preliminary estimate of each supplier's hourly loads by combining the proxy day class load shapes with the supplier's total load adjustment factors. Aggregate the loads across the classes for each supplier.

- C Adjust the preliminary hourly supplier estimates so that their sum is equal to NECO's actual hourly metered loads (as metered at the point of delivery to the distribution system) by allocating any differences to suppliers in proportion to their estimated load.

Monthly Reconciliation Process

The monthly process will improve the estimates of supplier loads by incorporating the most recent customer usage information, which will be available after the monthly meter readings are processed. A comparison will be made between customers' estimated and actual usage, by billing cycle, then summed across billing cycles for each supplier. The ratio between the actual kWh and the estimated kWh reflects the kWh amount for which the supplier may have been overcharged or undercharged by NEPOOL or the ISO during the month. This ratio will be used to develop a kWh adjustment amount for each supplier for the calendar month. The sum of the adjustments will be zero because the total kWh will still be constrained to equal NECO's actual hourly metered loads during the month.

Appendix C. Arbitration Agreement

ARBITRATION AGREEMENT

This Arbitration Agreement, dated as of September 1, 1998, is entered into between The Narragansett Electric Company, a Rhode Island corporation (“NECO”) and USGen New England, Inc., a Delaware corporation (“Seller”). Reference is made to that certain Second Amended and Restated Wholesale Standard Offer Service Agreement dated as of September 1, 1998 (the “Service Agreement”) between NECO and Seller. Unless otherwise specified or apparent from the context of this Arbitration Agreement, the term “Party” shall mean either NECO or Seller, or both of them.

WHEREAS, NECO and Seller wish to avoid the burden, time, and expense of court proceedings with respect to any disputes that may arise from or relate to the Service Agreement, and to submit such disputes to mandatory binding arbitration if they cannot first be resolved through negotiation and mediation.

NOW, THEREFORE, NECO and SELLER AGREE AS FOLLOWS:

1. Mediation

Before resorting to mediation or arbitration under this Arbitration Agreement, the Parties will try to resolve promptly through negotiation any Arbitrable claim, as defined below. If the Arbitrable Claim has not been resolved through negotiation within ten (10) days after the existence of the Arbitrable Claim has been brought to the attention of the other Party in a writing, any Party may request in writing to resolve the Arbitrable Claim through mediation conducted by a mediator selected by agreement of the Parties. The mediation procedure shall be determined by the Parties in consultation with the mediator. Any mediation pursuant hereto shall be kept confidential. The fees and expenses of the mediator shall be borne equally by the Parties. If the Parties are unable to agree upon the identity of a mediator or a mediation procedure within ten (10) days after a Party has requested mediation in writing or if the Arbitrable Claim has not been resolved to the satisfaction of either NECO or Seller within forty (40) days after the Parties have selected a mediator and agreed upon a mediation procedure, either Party may invoke arbitration pursuant to the following sections by notifying the other Party of such selection in writing consistent with Section 3(c), below.

2. Mandatory Arbitration

(a) Except as provided in paragraph (b) of this Section 2 and in Section 8, below, any case, controversy or claim arising out of or relating to the Service Agreement, its breach, or any other disputes arising out of the business relationship created by the Service Agreement, of whatever nature, including but not limited to any claim based in contract, in law, in equity, any statute, regulation, or theory of law now in existence or which may come into existence in the future, whether known or

unknown, including without limitation, claims based upon deceit, fraudulent inducement, misrepresentation, 18 U.S.C §§1962 and 1964 (RICO), and R.I. G.L. Title 6, c. 13.1, the federal and state antitrust laws (collectively, the “Arbitrable Claims”), which cannot be resolved by negotiation or mediation, as provided in Section 1 above, shall be submitted to mandatory, binding, and final arbitration in accordance with procedures set forth in this Agreement, which shall constitute the exclusive remedy for any and all Arbitrable Claims.

(b) Notwithstanding paragraph (a) above, physical accidents or events giving rise to negligence or intentional tort claims for the recovery of property damages and/or damages for personal injury and failure to make payments due under Section 5.2 of the Service Agreement shall not be considered “Arbitrable Claims.” However disputes regarding the interpretation or scope of any indemnification clauses in the Service Agreement shall be subject to arbitration, even if the dispute relates to whether one Party must indemnify the other for property damages and/or damages for personal injury, the recovery of which was or will be determined in a court of law.

(c) Each Party agrees that it will not attempt to circumvent this Arbitration Agreement by coordinating or cooperating with their respective parent companies or affiliates or guarantors in the filing of a legal action in the name of any of the parent companies or affiliates or guarantors of the Parties to this Arbitration Agreement regarding claims that otherwise are subject to this Arbitration Agreement. Any Party failing to comply with this provision shall indemnify the other Party against, and hold the other harmless from, the costs (including reasonable litigation costs) incurred by the other in defending any and all claims brought by a parent company or affiliate or guarantor of the other in a court of law regarding claims that otherwise would be Arbitrable Claims under this Arbitration Agreement.

3. Selection and Qualification of Arbitrators

(a) Any arbitration shall be conducted by a panel of three neutral arbitrators, consisting of (i) a practicing lawyer admitted to practice in the Commonwealth of Massachusetts; (ii) a person with professional experience in and substantial knowledge of the power generation industry in any one or more of the New England States, who may be, but need not be a lawyer, and (iii) a person with professional experience in and substantial knowledge of power markets in any one or more of the New England States, who may, but need not be, a lawyer (collectively, the “Arbitration Panel”). For purposes of this Arbitration Agreement, an arbitrator or candidate shall be considered “neutral” only if the arbitrator or candidate has not previously served as an arbitrator for a Party or one of its affiliates or guarantors and is not a present or former lawyer, employee or consultant of a Party or any of its affiliates or guarantors.

(b) Any Party entitled to commence arbitration hereunder shall do so by serving a written Notice of Arbitration briefly describing the Arbitrable Claims and the Agreements under which they are brought. Service of such Notice of Arbitration shall be complete upon receipt by the person designated for each party at the addresses specified in Section 12 below.

(c) Within twenty (20) days after service of a Notice of Arbitration, each Party shall serve upon the other Party a list of seven neutral candidates for each of the three panel members described in subparagraph (a) above.

(d) Within twenty (20) days after service of the lists referred to in subparagraph (c), NECO and Seller shall then strike from the other's lists any two candidates from each of the lists, for any reason whatsoever. For the remaining candidates each Party shall rank each candidate on its three lists from one to five and shall do the same for the other Party's lists.

(e) The candidates in each of the three categories with the lowest total score shall be invited to serve as panel members. In the event that the candidate in any of the three categories with the lowest total score is unable or unwilling to serve, or has a potential conflict of interest not consented to by each Party, then the candidate with the next lowest score in that category shall be invited to serve, subject to full disclosure by each candidate of, and consent by each Party to any potential conflicts of interests. This process shall be repeated until a full arbitration Panel is selected or the list of candidates for that category is exhausted. If the list of candidates for a category is exhausted the Parties shall exchange a new list of candidates for that category and the procedures set forth above shall be repeated a second time.

(f) If the parties cannot select a full Arbitration Panel in accordance with these procedures than any Party may request that a court of competent jurisdiction appoint the remaining members subject to their qualifications, willingness and ability to serve as provided above.

(g) The American Arbitration Association shall be appointed to facilitate and administer the parties' compliance with the procedures set forth above.

4. Time Schedule

The Arbitration shall be conducted as expeditiously as possible. The Arbitration Panel shall schedule a pre-hearing conference and hearings as it deems advisable and shall use its best efforts to schedule consecutive days of hearings. Hearings shall be limited to a total of ten (10) days. The Arbitration Panel shall issue its final decision and award within thirty (30) days of the close of the hearings, which shall be accompanied by a written, reasoned opinion.

5. Remedies

(a) The Arbitration Panel shall not award punitive or multiple damages or any other damages not measured by the prevailing Party's actual damages - except that the Arbitration Panel, in its sole discretion, may shift all or a portion of the costs of the Arbitration to any Party.

(b) Any award of damages by the Arbitration Panel shall be determined, limited and controlled by the damages limitation clauses of the Service Agreement applicable to the dispute before the Arbitration Panel.

(c) The Arbitration Panel may, in its discretion, award pre-award and post-award interest on any damages award; provided, however, that the rate of pre-award or post-award interest shall not exceed a rate equal to the rate provided for post-judgment interest by 28 U.S.C. § 1961 as published from time to time by the Administrative Office of the United States Courts based on the equivalent coupon issue yield for auctions of 52-week Treasury bills.

6. Confidentiality

The existence, contents, or results of any mediation or arbitration hereunder may not be disclosed without the prior written consent of both Parties; provided, however, either Party may make disclosures as may be necessary to fulfill regulatory obligations to any regulatory bodies having jurisdiction, and may inform their lenders, affiliates, auditors and insurers, as necessary, under pledge of confidentiality and can consult with experts as required in connection with the arbitration under pledge of confidentiality. If any Party seeks preliminary injunctive relief from any court to preserve the status quo or avoid irreparable harm pending mediation or arbitration, the Parties agree to use best efforts to keep the court proceedings confidential, to the maximum extent permitted by law.

7. FERC Jurisdiction over Certain Disputes

(a) Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, any Party from filing a petition or complaint with the Federal Energy Regulatory Commission (“FERC”) with respect to any Arbitrable Claim. In such case, the other Party may request FERC to reject or to waive jurisdiction. If the FERC rejects or waives jurisdiction, with respect to all or a portion of the claim, the portion of the claim not so accepted by FERC shall be resolved through arbitration, as provided in this Arbitration Agreement. To the extent that FERC asserts or accepts jurisdiction over the claim, the decision, finding of fact, or order of FERC shall be final and binding, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings.

(b) The Arbitration Panel shall have no authority to modify, and shall be conclusively bound by, any decision, finding of fact, or order of FERC. However, to the extent that a decision finding of fact, or order of FERC does not provide a final or complete remedy to the Party seeking relief, such Party may proceed to arbitration under this Arbitration Agreement to secure such remedy, subject to the FERC decision, finding or order.

8. Preliminary Injunctive Relief

Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, the resort by either Party to a court of competent jurisdiction solely for the purposes of securing a temporary or preliminary injunction to preserve the status quo or avoid irreparable harm pending mediation or arbitration pursuant to this Arbitration Agreement.

9. Governing Law

This Arbitration Agreement shall be construed, enforced in accordance with, and governed by, the laws of the State of Rhode Island.

10. Location of Arbitration

Any arbitration hereunder shall be conducted in Boston, Massachusetts.

11. Severability

If any section, subsection, sentence, or clause of this Arbitration Agreement is adjudged illegal, invalid, or unenforceable, such illegality, invalidity, or enforceability shall not affect the legality, validity, or enforceability of the Arbitration Agreement as a whole or of any section, subsection, sentence or clause hereof not so adjudged.

12. Notices

Any notices required to be given pursuant to this Arbitration Agreement shall be in writing and sent to the receiving party by (i) certified mail, return receipt requested, (ii) overnight delivery service, or (iii) facsimile transmission (confirmed by telephone), addressed to the receiving party at the address shown below or such other address as a party may subsequently designate in writing. Any such notice shall be deemed to be given (i) three days after deposit in the United States mail, if sent by mail, (ii) when actually received if sent by overnight delivery service, or (iii) when sent, if sent by facsimile and confirmed by telephone.

If to NECO: The Narragansett Electric Company
25 Research Drive
Westborough, Massachusetts 01582
Attention: General Counsel
Facsimile: (508) 389-2463

If to Seller USGen New England, Inc.
7500 Old Georgetown Road, 13th floor
Bethesda, MD 20814

Attention: Stephen A. Herman, Esq.
Facsimile: (301) 718-6913

In addition, the parties shall send copies of any notices required by the terms of any of the Agreements, in accordance with the terms of each Agreement.

IN WITNESS WHEREOF, each Party has caused its duly authorized officers to execute this Arbitration Agreement on the dates set forth below.

THE NARRAGANSETT ELECTRIC COMPANY

BY: _____

Its _____

USGEN NEW ENGLAND, INC.

BY: _____

Its _____

**AMENDED AND RESTATED
NECO WHOLESALE STANDARD OFFER
SERVICE AGREEMENT II**

WHOLESALE STANDARD OFFER
SERVICE AGREEMENT

between

THE NARRAGANSETT ELECTRIC COMPANY

and

USGEN NEW ENGLAND, INC.

Dated as of September 1, 1998

AMENDED AND RESTATED NECO WHOLESALE STANDARD OFFER SERVICE AGREEMENT II

This **AMENDED AND RESTATED NECO WHOLESALE STANDARD OFFER SERVICE AGREEMENT II** ("Agreement") is dated as of September 1, 1998 and is by and between THE NARRAGANSETT ELECTRIC COMPANY, a Rhode Island corporation ("NECO"), and USGen New England, Inc., a Delaware corporation ("Seller"), and amends and restates and supersedes in its entirety the NECO Wholesale Standard Offer Service Agreement II dated as of October 29, 1997, between NECO and Seller. This Agreement provides for the purchase by NECO and the sale by Seller of Wholesale Standard Offer Service, as defined in this Agreement.

ARTICLE 1. BASIC UNDERSTANDINGS

NECO purchases all of its requirements of electricity for resale to its retail electric customers from its affiliate, New England Power Company ("NEP").

NEP, NECO and other parties have entered into an agreement in settlement of regulatory proceedings before the Federal Energy Regulatory Commission (the "Rhode Island Restructuring Agreement") that, among other things, implements certain requirements of the Rhode Island Utility Restructuring Act of 1996 (the "Act"), permits NECO to terminate wholesale purchases from NEP, permits current retail customers of NECO to purchase electricity from other suppliers on and after a date defined therein as the "Retail Access Date," or, for a limited time, to purchase Standard Offer Service from NECO, obligates NEP to supply NECO with power sufficient to meet the latter's obligations to supply Standard Offer Service, and obligates NEP to transfer its interests in the electric generating business to another party or parties.

NEP, NECO, and Seller have entered an agreement under which Seller will acquire certain NEP and NECO generating assets.

NEP and Seller desire that Seller shall supply electric capacity and energy to NECO to fulfill a portion of NEP's power supply obligations under the Rhode Island Restructuring Agreement.

Under the Rhode Island Restructuring Agreement, NECO is obligated to afford wholesale power suppliers other than NEP the opportunity to commit to supply NECO with power sufficient to meet NECO's obligation to supply retail Standard Offer Service after the Retail Access Date.

This Agreement sets forth the terms under which Seller will supply Wholesale Standard Offer Service to NECO, for a period beginning on the Closing Date, to enable NECO to meet the

needs of its retail customers for electricity, including all or a portion of the needs of customers receiving retail Standard Offer Service after the Retail Access Date.

ARTICLE 2. DEFINITIONS

The following words and terms shall be understood to have the following meanings when used in this Agreement, or in any associated documents entered into in conjunction with this Agreement. In addition, except as otherwise expressly provided, where terms used in this Agreement are defined in the NEPOOL Agreement and not otherwise defined herein, such definitions are expressly incorporated into this Agreement by reference.

Affiliate of NECO - Any company that is a subsidiary of New England Electric System and its successors.

Closing Date - The date upon which the Seller acquires ownership of generating assets it purchases from NEP.

Commission or FERC - The Federal Energy Regulatory Commission or such successor federal regulatory agency as may have jurisdiction over this Agreement.

Contract Termination Date - The date established by the Rhode Island Restructuring Agreement when the respective obligations of NEP and NECO under NEP's FERC Electric Tariff, Original Volume No. 1, to sell and purchase wholesale electric requirements service shall cease. The Contract Termination Date occurred on January 1, 1998.

GWh - Gigawatt hour.

ISO - The Independent System Operator to be established in accordance with the NEPOOL Agreement and the Interim Independent System Operator Agreement as amended, superseded or restated from time to time.

kWh - Kilowatt- hour.

MECO - Massachusetts Electric Company.

MECO Wholesale Standard Offer Service Agreement - The Wholesale Standard Offer Service Agreement of even date herewith between MECO and the Seller.

NECO's Service Territory - The geographic area in which NECO provided electric service to retail customers on August 6, 1996.

NECO's System - The electrical system of NECO and/or the electrical system of any Affiliate of NECO.

MMBtu - Million British thermal units.

NEP - New England Power Company, an Affiliate of NECO.

NEPEX - The New England Power Exchange.

NEPOOL - The New England Power Pool.

NEPOOL Agreement - The New England Power Pool Agreement dated as of September 1, 1971, as amended and as may be amended or restated from time to time.

Price - The price set forth in SECTION 5.1, below.

Prime Rate - The prime (or comparable) rate announced from time to time as its prime rate by the Bank of Boston or its successor, which rate may differ from the rate offered to its more substantial and creditworthy customers.

PTF - Facilities categorized as Pool Transmission Facilities under the NEPOOL Agreement.

Retail Access Date - The date so defined under the Rhode Island Restructuring Agreement. The Retail Access Date occurred on January 1, 1998.

Rhode Island Restructuring Agreement - The Offer of Settlement dated May 30, 1997, entered into by and among the RIPUC, the Rhode Island Division of Public Utilities and Carriers, NECO, and NEP, as amended and accepted or approved by the FERC.

RIPUC - The Rhode Island Public Utilities Commission.

Standard Offer Auction - The solicitation by NECO of offers from wholesale power suppliers, including, at their option, NEP and Seller, of electric energy and associated capacity and ancillary services necessary to meet the needs of ultimate customers of NECO eligible for and accepting retail Standard Offer Service on or after the Retail Access Date, and any wholesale electric supply contracts resulting from that solicitation. The solicitation and any contract(s) entered into as a result thereof shall not be on terms that are materially different from those described by MECO in the Massachusetts Restructuring Agreement (as defined in the MECO Wholesale Standard Offer Service Agreement), the RFQ dated April 3, 1997, and the letter to potential asset purchasers dated June 16, 1997, or result in a material adverse impact on Seller. NECO shall not, without Seller's consent, conduct the Standard Offer Auction more than once or more than six (6) months prior to the Retail Access Date, which date shall be as reasonably determined by NECO.

Standard Offer Service - The electric service provided by NECO pursuant to the Rhode Island Restructuring Agreement: (i) to retail customers in NECO's Service Territory during the period, if any, during the term of this Agreement preceding the Retail Access Date; and (ii) to NECO's retail customers on the Retail Access Date that do not elect to obtain their electric supply from an alternative supplier on or after the Retail Access Date through December 31, 2009.

Wholesale Access Date - The date so defined under the Rhode Island Restructuring Agreement, as the date on which NECO in its sole discretion decides to terminate its purchase from NEP of wholesale requirements service pursuant to NEP's FERC Electric Tariff, Original Volume No. 1, by providing the Commission and the Signatories to the Rhode Island Restructuring Agreement with 90 days advance notice in writing, said date not to be earlier than January 1, 1998.

Wholesale Standard Offer Service - The generation and delivery, to any location on the NEPOOL PTF system or NECO's system, of the portion of the electric capacity, energy and ancillary services required by NECO to meet the needs of NECO's ultimate customers taking Standard Offer Service, excluding, after the Retail Access Date, any portion of such requirements that NECO has contracted to obtain through the Standard Offer Auction, determined in accordance with ARTICLE 4. Seller, as the supplier of Wholesale Standard Offer Service capacity and energy, will be responsible for all present, or future requirements and associated costs for installed capability, operable capability, energy, operating reserves, and automatic generation control, including tie benefit payments, losses and any congestion charges associated with Seller's supply of Wholesale Standard Offer Service and any other requirements imposed by NEPOOL or the ISO, as they may be in effect from time to time. To the extent that any NEPOOL, ISO or any successor entity expenses or uplift costs are allocated to wholesale suppliers, the portion of such costs associated with Seller's supply of Standard Offer Service will also be the responsibility of Seller. To the extent any costs contemplated by this paragraph are applicable to NECO and recoverable by NECO from its customers, NECO shall be responsible for such costs.

ARTICLE 3. TERM AND REGULATORY APPROVAL

3.1 Term

The term of this Agreement shall begin at 12:01 am on the Closing Date and continue until the earlier of: (a) 11:59 pm on December 31, 2009; or (b) the first date that NECO has no requirements for electric capacity and energy to supply Standard Offer Service that are not satisfied by contracts resulting from the Standard Offer Auction

3.2 Obtaining and Maintaining Required Permits

(a) Performance under this Agreement is conditioned upon both Parties securing and maintaining such federal, state or local approvals, grants or permits as may be necessary for the

sale and purchase of Wholesale Standard Offer Service, which shall not include any approvals, grants, or permits necessary for the operation of any particular generating facility. Each Party shall use reasonable efforts to acquire and maintain such approvals, grants or permits. If the acquisition or maintenance of a particular approval, grant, or permit requires a modification to this Agreement, then the Parties agree to negotiate in good-faith to reach a mutually agreeable modification of the Agreement. The Parties are not required to reach such a mutually acceptable modification.

(b) Seller will file this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) in accordance with the provisions of applicable laws, rules and regulations. Seller will be responsible for any filing fees for filing this Agreement with FERC (and any other regulatory agency as may have jurisdiction over the Agreement) and for any regulatory assessments associated with sales under this Agreement. FERC approval of this Agreement shall be a condition to the obligations of the Parties hereunder.

ARTICLE 4. SALE AND PURCHASE

4.1 Wholesale Standard Offer Service

Seller shall sell and deliver to the Delivery Points, as defined in ARTICLE 6, SECTION 6.1 and NECO shall purchase 9.22% of NECO's requirements for Wholesale Standard Offer Service. NECO's requirements for Wholesale Standard Offer Service shall be determined on the basis of ARTICLE 6, SECTION 6.3, below, and the price for such sale and purchase shall be as set forth in ARTICLE 5, SECTION 5.1, below.

4.2 Dispatchable Load Credits

Seller shall have the right, but not the obligation, to elect to purchase a portion of the peak load reduction credits, if any, as provided for in NEPOOL Criteria, Rules and Standards No. 16, associated with NECO's retail customers which are taking Standard Offer Service and which are taking service under NECO's Cooperative Interruptible Service Provision (as defined in NECO's tariffs on file with RIPUC) ("Dispatchable Load Credits"), during the period commencing at 0001 hours on the Closing Date and ending at 2400 hours on October 31, 1998 (the "Option Period"). Seller may purchase such credits for any, all, or any combination of calendar months during the Option Period.

In order to receive such credits, Seller shall provide NECO with written notice of such election at least seven days prior to the requested start date. Such notice shall include: (i) the requested start date, which shall be the first day of a calendar month, (ii) the requested end date, which shall be the last day of a calendar month, and (iii) the fixed amount per month of Dispatchable Load Credits (the "Seller's Election"), which shall not exceed 9.22% of the

minimum load reduction actually experienced by NECO during the most recent 12 month period, excluding for such period months in which interruptions occurred ("Load Reductions").

In the event Seller does not provide a timely notice of election for any month, Seller's Election for such month will be presumed to be zero (0) kilowatts.

NECO will provide Seller during each month of this Agreement with a report on (i) the quantity of Load Reductions for the preceding month and (ii) the number of customers (and associated nominal interruptible load), if any, which ceased taking service under NECO's Cooperative Interruptible Service Provision during the preceding month.

ARTICLE 5. PRICE AND BILLING

5.1 Price

(a) For each kilowatt hour of Wholesale Standard Offer Service that Seller delivers to the Delivery Points, in accordance with ARTICLE 6, SECTION 6.3, below, NECO shall pay Seller a price equal to the following amounts for each period during the term of this Agreement:

Period	Price in Cents per kWh
1998	3.2 Cents
1999	3.5 Cents
2000	3.8 Cents
2001	3.8 Cents
2002	4.2 Cents
2003	4.7 Cents
2004	5.1 Cents
2005	5.5 Cents
2006	5.9 Cents
2007	6.3 Cents
2008	6.7 Cents

2009	7.1 Cents
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In addition, in the event of increases in the market price of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999 as described in Appendix A, NECO shall pay Seller additional amounts in accordance with the Standard Fuel Adjustment Provision, described in Appendix A, attached and incorporated herein by reference.

(b) For any month in which Seller elects to receive Dispatchable Load Credits, in accordance with ARTICLE 4, SECTION 4.2, for each kilowatt of Seller's Election, NECO shall be entitled to a reduction in the amount owed to Seller by NECO pursuant to paragraph (a) above at a value calculated pursuant to the second paragraph of ARTICLE 5, SECTION 5.2 at the following rates ("Option Price"):

Month Of Transfer	Option Price in Dollars per KW Month
January, February, July, August, September, December	\$3.125
March, April, May, June, October, November	\$1.875

5.2 Payment

(a) On or before the tenth (10th) day of each month during the term of this Agreement, NECO shall: (i) calculate the amount due and payable to Seller pursuant to this ARTICLE 5 with respect to the preceding month; and (ii) advise Seller of the schedule upon which it shall pay the amount so calculated, which schedule shall comply with paragraph (b), below.

The amount payable shall be calculated by (i) multiplying the Price specified in the first paragraph of ARTICLE 5, SECTION 5.1, above, for the applicable Contract Period by the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points for NECO's Standard Offer Service customers in the month, as determined in accordance with ARTICLE 6, SECTION 6.3, below and then subtracting the result obtained by (ii) multiplying the Option Price specified in the second paragraph of ARTICLE 5, SECTION 5.1, above, for the applicable month by the Seller's Election for the applicable month, as determined and certified as true and accurate, by Seller.

Because quantities determined under SECTION 6.3 are estimated, subject to a reconciliation process described in SECTION 6.3(d), quantities used in calculations under this paragraph (a) shall be subject to adjustment, whether positive or negative, in subsequent months' calculations, to reflect that reconciliation process, and any adjusted quantities shall be applied to

the Price applicable during the month of the calculation being adjusted. Additional amounts due Seller, if any, from the Standard Offer Fuel Adjustment Provision shall be added to such amount.

(b) NECO shall pay Seller any amounts due and payable on or before the twenty-fifth (25th) day after the date a calculation is made pursuant to paragraph (a), provided that, if and to the extent NECO pays Seller any portion of the amount due and payable before the twenty-fifth (25th) day after a calculation is made, it shall be entitled, without interest or penalty, to defer payment of an equal portion of the amount due and payable for that month by the lesser of: (i) the same number of days that the early payment preceded the twenty-fifth day after the calculation; and (ii) twenty-five (25) days. If all or any part of any amount due and payable pursuant to paragraph (a) shall remain unpaid thereafter, interest shall thereafter accrue and be payable to Seller on such unpaid amount at a rate per annum equal to two percent (2%) above the Prime Rate in effect on the date of such bill; provided, however, if the amount due and payable is disputed, interest shall accrue and be payable to Seller on the unpaid amount finally determined to be due and payable at a rate per annum equal to the Prime Rate in effect on the date of the calculation pursuant to paragraph (a); and provided, further, no interest shall accrue in favor of Seller or NECO on amounts that are added to or credited against a calculation due to the adjustment of estimated quantities in accordance with paragraph (a) and ARTICLE 6, SECTION 6.3.

(c) With respect to reconciliation adjustments pursuant to SECTION 6.3(d) or any error in a calculation (whether the amount is paid or not), any overpayment, underpayment, or reconciliation adjustment will be refunded or paid up, as appropriate. Interest shall accrue from the date of the error or adjustment on the unpaid or overpaid amount finally determined to be due and shall be calculated pursuant to Section 35.19a of the Commission regulations.

5.3 Taxes, Fees and Levies

Seller shall be obligated to pay all present and future taxes, fees and levies which may be assessed upon Seller by any entity upon the purchase or sale of electricity covered by the Agreement. To the extent such taxes, fees, and levies are allowed to be, and are actually, recoverable by NECO from its customers, NECO shall reimburse Seller for such taxes, fees, and levies paid by Seller. It is expressly agreed that Seller shall not be responsible for, and shall be held harmless from, the Rhode Island Tax on gross receipts or earnings (Public Service Corporation Tax, Chapter 44-13 of the Rhode Island General Laws, as amended or superseded).

ARTICLE 6. DELIVERY, LOSSES, AND DETERMINATION AND REPORTING OF HOURLY LOADS

6.1 Delivery

All electricity shall be delivered to NECO in the form of three-phase sixty-hertz alternating current at any location on the NEPOOL PTF system or NECO's System ("Delivery Points"). Title shall pass to NECO at the Delivery Point and Seller shall incur no expense or risk beyond the Delivery Point other than those described in SECTION 6.2. If the NEPOOL control area experiences congestion, Seller will be responsible for any congestion costs incurred in delivering power across the PTF system to NECO to the extent such costs are imposed by NEPOOL or the ISO on suppliers. Seller shall be responsible for all transmission and distribution costs associated with the use of transmission systems outside of NEPOOL and any local point to point charges and distribution charges needed to deliver the power to the NEPOOL PTF.

6.2 Losses

Seller shall be responsible for all transmission and distribution losses associated with the delivery of electricity supplied under this Agreement to the meters of ultimate customers of NECO receiving retail Standard Offer Service, provided, however, that losses do not include service to unmetered facilities for which estimates of kWh use are available and provided, further, that Seller shall not be responsible for unmetered use or consumption of electricity by NECO's Affiliates. Seller shall provide NECO at the Delivery Points with additional quantities of electricity and ancillary services to cover such losses, but Seller shall not be entitled to payment under ARTICLE 5 of this Agreement for such additional quantity. The quantities required for this purpose in each hour of a billing period shall be determined in accordance with NEPOOL's, NEP's and NECO's filed procedures for loss determination.

6.3 Determination and Reporting of Hourly Loads

(a) To meet its NEPOOL obligations, Seller, or a NEPOOL member having an own-load dispatch or settlement account with the NEPOOL billing system with whom Seller has a load inclusion agreement, must report to NEPOOL or the ISO the Standard Offer Service load for which Seller is providing Wholesale Standard Offer Service pursuant to this Agreement, including losses. To accomplish this, NECO will estimate its total hourly Standard Offer Service load based upon average load profiles developed for each NECO customer class and NECO's actual total hourly load. Appendix B, attached and incorporated herein by reference, provides a general description of the estimation process that NECO will initially employ (the "Estimation Process"). NECO reserves the right, subject to the approval of appropriate regulatory authorities having jurisdiction to modify the Estimation Process in the future, provided that any such modification be designed to improve the accuracy of its results, and provided further that NECO shall consult with Seller and other similarly situated sellers to the maximum extent permitted by any applicable standards of conduct. NECO will report to NEPOOL, on behalf of Seller or such other NEPOOL member, Seller's hourly Standard Offer Service load, which shall equal the portion of NECO's estimated total Standard Offer Service hourly load for which Seller is responsible for supplying Wholesale Standard Offer Service under this Agreement.

(b) NECO will report to NEPOOL or the ISO Seller's hourly adjusted Standard Offer Service loads by 1:00 p.m. of the second following business day. This adjusted load should be added by NEPOOL or the ISO to the other NEPOOL load of Seller or such other NEPOOL member.

(c) At the end of each month, NECO shall aggregate Seller's hourly loads for the month as determined by the Estimation Process. For purposes of SECTION 5.1, above, the result of the Estimation Process, less losses to the Standard Offer Service customers' meters determined as specified in ARTICLE 6 SECTION 6.2, above, will be deemed to be the quantity of Wholesale Standard Offer Service delivered by Seller to the Delivery Points in a month.

(d) To refine the estimates of Seller's monthly Standard Offer Service load developed by the Estimation Process, a monthly calculation will be performed to reconcile the original estimate of Seller's Standard Offer Service loads to actual customer usage based on meter reads. NECO will apply any resulting billing adjustment (debit or credit) to Seller's account no later than the last day of the third month following the billing month. Appendix B, attached and incorporated herein by reference, also provides a general description of this reconciliation process.

ARTICLE 7. DEFAULT AND TERMINATION

7.1 Material Breach and Termination

- (a) (i) If NECO fails in any material respect to comply with, observe or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to Seller's wrongful act or wrongful failure to act); and
- (ii) After receipt of written notice from Seller such failure continues for the Cure Period (as defined below), or, if such failure cannot be reasonably cured within the Cure Period, such further period as shall reasonably be required to effect such cure (except in the case of a payment default), provided that NECO commences within the Cure Period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then
- (iii) Seller shall have the right to terminate this Agreement, subject to paragraph (c) below. For purposes of this Section 7.1(a), the Cure Period shall mean five days in the case of a failure by NECO to fulfill its payment obligations pursuant to Section 5.2 and forty-five (45) days in the case of a failure by NECO to comply with, observe or perform any other covenant, warranty or obligation under this Agreement. If an unexcused failure to pay continues for fifteen (15) days, Seller shall have the right to suspend

service until payment is made in full and appropriate security is posted for future payments or to terminate this Agreement.

- (b) (i) If Seller fails in any material respect to comply with, observe, or perform any covenant, warranty or obligation under this Agreement (except due to causes excused by force majeure or attributable to NECO's wrongful act or wrongful failure to act); and
- (ii) After receipt of written notice from NECO such failure continues for a period of forty-five (45) days, or, if such failure cannot be reasonably cured within such forty-five (45) day period, such further period as shall reasonably be required to effect such cure, provided that Seller commences within such forty-five (45) day period to effect such cure and at all times thereafter proceeds diligently to complete such cure as quickly as possible; then
- (iii) NECO shall have the right to terminate this Agreement, subject to paragraph (c) below.

(c) Any termination arising out of the exercise of the termination rights specified in paragraphs (a) or (b) above (with the exception of termination for a payment default) may not take effect unless and until an arbitrator (pursuant to ARTICLE 14, SECTION 14.2 of this Agreement) has made a ruling that the exercise of such termination right was valid. The fact that one party alleged to be in material breach of this Agreement ("Alleged Breaching Party") complies with the request of the other to cure an alleged material breach shall not be considered by the arbitrator as an admission against the Alleged Breaching Party or evidence that such party was or was not in material breach.

(d) Nothing in this SECTION 7.1 shall be construed to limit the right of any party to seek any remedies for damages, as limited by ARTICLE 9 of this Agreement, even if a cure of an alleged breach is made within the periods of time specified for curing any such breach stated above. The provisions of this SECTION 7.1 are intended only to provide the exclusive process through which one party may exercise and effectuate its right to terminate this Agreement as a result of a material breach of this Agreement.

ARTICLE 8. NOTICES, REPRESENTATIVES OF THE PARTIES

8.1 Notices

Any notice, demand, or request required or authorized by this Agreement to be given by one party to another party shall be in writing. It shall either be sent by facsimile (confirmed by telephone), overnight courier, personally delivered and acknowledged in writing or by registered or certified mail, (return receipt requested) postage prepaid, to the representative of the other

party designated in this ARTICLE 8. Any such notice, demand, or request shall be deemed to be given (i) when sent by facsimile confirmed by telephone, (ii) when actually received if delivered by courier or personal deliver or (iii) three (3) days after deposit in the United States mail, if sent by first class mail.

Notices and other communications by Seller to NECO shall be addressed to:

The Narragansett Electric Company
c/o New England Power Service Company
25 Research Drive
Westborough, MA 01582
Attention: Michael J. Hager
Fax: (508) 389-2463

Notices and other communications by NECO to Seller shall be addressed to:

USGen New England, Inc.
7500 Old Georgetown Road, 13th Floor
Bethesda, MD 20814
Attention: Stephen A. Herman
Fax: (301) 718-6913

Any party may change its representative by written notice to the others.

8.2 Authority of Representative

The parties' representatives designated in ARTICLE 8, SECTION 8.1 shall have full authority to act for their respective principals in all technical matters relating to the performance of this Agreement. They shall not, however, have the authority to amend, modify, or waive any provision of this Agreement unless they are authorized officers of their respective entities.

ARTICLE 9. LIABILITY, INDEMNIFICATION, AND RELATIONSHIP OF PARTIES

9.1 Limitation on Consequential, Incidental and Indirect Damages

To the fullest extent permissible by law, neither NECO nor Seller, nor their respective officers, directors, agents, employees, parent or affiliates, successor or assigns, or their respective officers, directors, agents, or employees, successors, or assigns, shall be liable to the other party or its parent, subsidiaries, affiliates, officers, directors, agents, employees, successors or assigns, for claims, suits, actions or causes of action for incidental, indirect, special, punitive, multiple or consequential damages (including attorney's fees or litigation costs) connected with or resulting from performance or non-performance of this Agreement, or any actions undertaken in connection with or related to this Agreement, including without limitation any such damages

which are based upon causes of action for breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, Rhode Island Gen. Laws Title 6, c. 13.1, statute, operation of law, or any other theory of recovery. The provisions of this SECTION 9.1 shall apply regardless of fault and shall survive termination, cancellation, suspension, completion or expiration of this Agreement.

9.2 Recovery of Direct Damages Permitted

Notwithstanding the provisions of ARTICLE 9, SECTION 9.1, subject to the duty to mitigate damages as provided under common law of damages recovery, both NECO and Seller shall be entitled to recover their actual, direct damages (i) incurred as a result of the other party's breach of this Agreement or (ii) incurred as a result of any other claim arising out of any action undertaken in connection with or related to this Agreement. For purposes of avoiding any disputes about the difference between direct damages and consequential damages, the parties agree as follows:

- (a)
 - (1) To the extent that NECO is found to be in breach of this Agreement or liable under another cause of action; and
 - (2) as a result of such breach or event giving rise to the cause of action, Seller suffers loss of profits that Seller reasonably expected to have received from NECO under this Agreement had NECO performed under this Agreement; then
 - (3) Seller shall be entitled to recover any lost profits that Seller can demonstrate it lost or will lose as a result of NECO's breach, subject to the duty to mitigate.
- (b)
 - (1) To the extent that Seller fails to provide NECO Wholesale Standard Offer Service Power under the terms of this Agreement; and
 - (2) as a result, Seller is found to be in material breach of this Agreement or liable under another cause of action; and
 - (3) subject to the duty to mitigate, NECO purchases (as a result of Seller's failure) power from a third party at a price that is higher than what NECO would have paid under the terms of this Agreement, NECO may recover the difference between the price NECO paid to such third party and the price it would have paid had Seller performed; provided, however, Seller shall not be liable to NECO for lost profits associated with any expected revenue streams from the sale of power to third parties or lost profits from any other contracts or sales.
- (c) Except as provided in paragraphs (a) and (b) above, neither NECO nor Seller shall be liable to the other for lost profits arising out of performance, or non-performance of this

Agreement, whether such lost profits may be categorized as direct, incidental, indirect, or consequential damages and irrespective of whether such claims are based upon warranty, tort, strict liability, contract, statute (including R.I. G.L. Title 6, c. 13.1), operation of law or otherwise.

9.3 Indemnification

(a) Seller agrees to defend, indemnify and save NECO, its officers, directors, employees, agents, successors, assigns, and Affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by Seller, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of NECO or their successors or assigns.

(b) NECO agrees to defend, indemnify and save Seller, its officers, directors, employees, agents, successors, assigns, and affiliates and their officers, directors, employees, and agents harmless from and against any and all claims, suits, actions or causes of action for damage by reason of bodily injury, death, or damage to property caused by NECO, its officers, directors, employees, agents or affiliates or caused by or sustained on its facilities, except to the extent caused by an act of negligence or willful misconduct by an officer, director, agent, employee or Affiliate of Seller or their successors or assigns.

(c) If any party intends to seek indemnification under this ARTICLE from the other party with respect to any action or claim, the party seeking indemnification shall give the other party notice of such claim or action within fifteen (15) days of the commencement of, or actual knowledge of, such claim or action. Such party seeking indemnification shall have the right, at its sole cost and expense, to participate in the defense of any such claim or action. The party seeking indemnification shall not compromise or settle any such claim or action without the prior consent of the other party, which consent shall not be unreasonably withheld.

9.4 Independent Contractor Status

Nothing in this Agreement shall be construed as creating any relationship between NECO and Seller other than that of independent contractors for the sale and purchase of electricity provided as Wholesale Standard Offer Service.

ARTICLE 10. ASSIGNMENT

10.1 Assignment

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any

party hereto, including by operation of law without the prior written consent of the other party, nor is this Agreement intended to confer upon any other Person except the parties hereto any rights or remedies hereunder. Notwithstanding the foregoing, (i) NECO may, without Seller's prior written consent, (A) assign all or a portion of its rights and obligations under this Agreement to any Affiliate of NECO or (B) assign its rights and obligations hereunder, or transfer such rights and obligations by operation of law, to any corporation or other entity with which or into which NECO shall merge or consolidate or to which NECO shall transfer all or substantially all of its assets, provided that such Affiliate or other entity agrees to be bound by the terms thereof; provided, in either case, that the assignee or transferor shall have senior securities rated investment grade or better; (ii) the Seller may assign all of its rights and obligations hereunder to any wholly owned Subsidiary (direct or indirect) of PG&E Corporation and upon NECO's receipt of notice from Seller of any such assignment, the Seller will be released from all liabilities and obligations hereunder, accrued and unaccrued, such assignee will be deemed to have assumed, ratified, agreed to be bound by and perform all such liabilities and obligations, and all references herein to "Seller" shall thereafter be deemed references to such assignee, in each case without the necessity for further act or evidence by the parties hereto or such assignee; provided, however, that no such assignment and assumption shall release the Buyer from its liabilities and obligations hereunder unless the assignee shall have acquired all or substantially all of the Buyer's assets; provided, further, however, that no such assignment and assumption shall relieve or in any way discharge PG&E Corporation from the performance of its duties and obligations under the Guaranty dated as of the date of this Agreement executed by PG&E Corporation, and (iii) the Seller or its permitted assignee may assign, transfer, pledge or otherwise dispose of its rights and interests hereunder to a trustee or lending institution(s) for the purposes of financing or refinancing the Purchased Assets, including upon or pursuant to the exercise of remedies under such financing or refinancing, or by way of assignments, transfers, conveyances or dispositions in lieu thereof; provided, however, that no such assignment or disposition shall relieve or in any way discharge the Seller or such assignee from the performance of its duties and obligations under this Agreement. NECO agrees to execute and deliver such documents as may be reasonably necessary to accomplish any such assignment, transfer, conveyance, pledge or disposition of rights hereunder so long as NECO's rights under this Agreement are not thereby altered, amended, diminished or otherwise impaired.

ARTICLE 11. FORCE MAJEURE

11.1 Force Majeure Standard

The parties shall be excused from performing their respective obligations hereunder and shall not be liable in damages or otherwise, if and only to the extent that they are unable to so perform or are prevented from performing by an event of force majeure.

11.2 Force Majeure Definition

An event of force majeure includes, without limitation, storm, flood, lightning, drought, earthquake, fire, explosion, equipment failure, civil disturbance, labor dispute, act of God or the public enemy, action of a court or public authority, or any other cause beyond a party's control, but only if and to the extent that the event directly affects the availability of the transmission or distribution facilities of NEPOOL, NECO or an Affiliate necessary to deliver Wholesale Standard Offer Service to NECO's customers. Events affecting the availability or cost of operating any generating facility shall not be events of force majeure.

11.3 Obligation to Diligently Cure Force Majeure

If any party shall rely on the occurrence of an event or condition described in ARTICLE 11, SECTION 11.2, above, as a basis for being excused from performance of its obligations under this Agreement, then the party relying on the event or condition shall:

- a. provide written notice to the other parties promptly but in no event later than 5 days of the occurrence of the event or condition giving an estimation of its expected duration and the probable impact on the performance of its obligations hereunder;
- b. exercise all reasonable efforts to continue to perform its obligations hereunder;
- c. expeditiously take reasonable action to correct or cure the event or condition excusing performance; provided that settlement of strikes or other labor disputes will be completely within the sole discretion of the party affected by such strike or labor dispute;
- d. exercise all reasonable efforts to mitigate or limit damages to the other parties to the extent such action will not adversely affect its own interests; and
- e. provide prompt notice to the other parties of the cessation of the event or condition giving rise to its excuse from performance.

ARTICLE 12. WAIVERS

The failure of either party to insist in any one or more instance upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights under this Agreement shall not be construed as a general waiver of any such provision or the relinquishment of any such right, but the same shall continue and remain in full force and effect, except with respect to the particular instance or instances.

ARTICLE 13. REGULATION

13.1 Laws and Regulations

This Agreement and all rights, obligations, and performances of the parties hereunder, are subject to all applicable Federal and state laws, and to all duly promulgated orders and other duly authorized action of governmental authority having jurisdiction.

13.2 NEPOOL Requirements

This Agreement must comply with all NEPOOL Criteria, Rules, and Standard Operating Procedures (“Rules”). If, during the term of this Agreement, the NEPOOL Agreement is terminated or amended in a manner that would eliminate or materially alter a Rule affecting a right or obligation of a party hereunder, or if such a Rule is eliminated or materially altered by NEPOOL, the parties agree to negotiate in good faith in an attempt to amend this Agreement to incorporate a replacement Rule (“Replacement Rule”). The intent of the parties is that any such Replacement Rule reflect, as closely as possible, the intent and substance of the Rule being replaced as such Rule was in effect prior to such termination or amendment of the NEPOOL Agreement or elimination or alteration of the Rule. If the parties are unable to reach agreement on such an amendment, the parties agree to submit the matter to arbitration under the terms of Appendix C, attached and incorporated herein by reference, and to seek a resolution of the matter consistent with the above stated intent.

ARTICLE 14. INTERPRETATION, DISPUTE RESOLUTION

14.1 Interpretation

The interpretation and performance of this Agreement shall be in accordance with and controlled by the laws of The State of Rhode Island.

14.2 Dispute Resolution

All disputes between NECO and Seller arising out of or relating to this Agreement which are defined as “Arbitrable Claims” in SECTION 2 of Appendix C, attached and incorporated herein by reference, shall be resolved by binding arbitration and be governed by the terms of such Arbitration Agreement. Any arbitration of an Arbitrable Claim that is substantially related to an arbitrable claim under a Wholesale Standard Offer Service Agreement among Seller, Massachusetts Electric Company, and Nantucket Electric Company shall be conducted jointly with the arbitration of the latter claim, before the same panel of arbitrators, with NECO, Massachusetts Electric Company, and Nantucket Electric Company jointly exercising their rights regarding the selection of arbitrators. Any decisions of the arbitrators shall be final and binding upon the parties.

ARTICLE 15. SEVERABILITY

If any provision or provisions of this Agreement shall be held invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

ARTICLE 16. MODIFICATIONS

No modification to this Agreement will be binding on any party unless it is in writing and signed by all parties.

ARTICLE 17. SUPERSESSION

This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and its execution supersedes any other agreements, written or oral, between the parties concerning such subject matter.

ARTICLE 18. COUNTERPARTS

This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.

ARTICLE 19. HEADINGS

Article and Section headings used throughout this Agreement are for the convenience of the parties only and are not to be construed as part of this Agreement.

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

THE NARRAGANSETT ELECTRIC
COMPANY

BY: _____

Its _____

USGEN NEW ENGLAND, INC.

BY: _____

Its _____

Appendix A. Standard Offer Fuel Adjustment Provision

In the event of substantial increases in the market prices of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999, NECO will pay additional amounts to Seller in accordance with this Standard Offer Fuel Adjustment Provision, which is calculated as follows:

The Stipulated Price in effect for a given billing month is multiplied by a “Fuel Adjustment” that is set equal to 1.0 and thus has no impact on the rate paid unless the “Market Gas Price” plus “Market Oil Price” for the billing month exceeds the “Fuel Trigger Point” then in effect, where:

The Stipulated Price is the following predetermined, flat rate, for energy consumed at the customer meter point:

<u>Calendar Year</u>	<u>Price per Kilowatt hour</u>
1998	3.2 cents
1999	3.5 cents
2000	3.8 cents
2001	3.8 cents
2002	4.2 cents
2003	4.7 cents
2004	5.1 cents
2005	5.5 cents
2006	5.9 cents
2007	6.3 cents
2008	6.7 cents
2009	7.1 cents

Seller will be paid the difference between the Stipulated Price as adjusted in accordance with this Standard Offer Fuel Adjustment Provision and the Stipulated Price for each kilowatt-hour it provides in the applicable month.

Market Gas Price is the average of the values of “Gas Index” for the most recent available twelve months, where:

Gas Index is the average of the daily settlement prices for the last three days that the NYMEX Contract (as defined below) for the month of delivery trades as reported in the “Wall Street Journal”, expressed in dollars per MMBtu. NYMEX Contract shall mean the New York Mercantile Exchange Natural Gas Futures Contract as approved by the Commodity Futures Trading Commission for the purchase and sale of natural gas at Henry Hub;

Market Oil Price is the average of the values of “Oil Index” for the most recent available twelve months, where:

Oil Index is the average for the month of the daily low quotations for cargo delivery of 1.0% sulphur No. 6 residual fuel oil into New York harbor, as reported in “Platt’s Oilgram U.S. Marketscan” in dollars per barrel and converted to dollars per MMBtu by dividing by 6.3; and

If the indices referred to above should become obsolete or no longer suitable, NECO shall file alternate indices with the RIPUC.

Fuel Trigger Point is the following amounts, expressed in dollars per MMBtu, applicable for all months in the specified calendar year:

2000	\$5.35/MMBtu
2001	\$5.35
2002	\$6.09
2003	\$7.01
2004	\$7.74
2005	\$8.48
2006	\$9.22
2007	\$9.95
2008	\$10.69
2009	\$11.42

In the event that the Fuel Trigger Point is exceeded, the Fuel Adjustment value for the billing month is determined based according to the following formula:

$$\text{Fuel Adjustment} = \frac{(\text{Market Gas Price} + \$0.60/\text{MMBtu}) + (\text{Market Oil Price} + \$0.04/\text{MMBtu})}{\text{Fuel Trigger Point} + \$0.60 + \$0.04/\text{MMBtu}}$$

Where:

Market Gas Price, Market Oil Price and Fuel Trigger Point are as defined above. The values of \$.60 and \$.04/MMBtu represent for gas and oil respectively, estimated basis differentials or market costs of transportation from the point where the index is calculated to a proxy power plant in the New England market.

For example if at a point in the year 2002 the Market Gas Price and Market Oil Price total \$6.50 (\$3.50/MMBtu plus \$3.00/MMBtu respectively), the Fuel Trigger Point of 6.09 would be exceeded. In this case the Fuel Adjustment value would be:

$$(\$3.50 + \$0.60/\text{MMBtu}) + (\$3.00 + \$0.04/\text{MMBtu}) = 1.0609$$

$\$6.09 + \$0.60 + \$0.04/\text{MMBtu}$

The Stipulated Price is increased by this Fuel Adjustment factor for the billing month, becoming 4.4548¢/kWh (4.2×1.0609).

In subsequent months the same comparisons are made and, if applicable, a Fuel Adjustment determined.

Appendix B. Estimation of Supplier Hourly Loads

Overview

Generating units operated by suppliers are dispatched by the power pool to meet the region's electrical requirements reliably, and at the lowest possible cost. As a result, a supplier's electricity production may not match the demand of its customers. In each hour some suppliers with low cost production units are net sellers of electricity to the pool, while other suppliers are purchasing power from the pool to meet the demand of their customers. To determine the extent to which suppliers are net buyers or sellers on an hourly basis, it is necessary to estimate the hourly aggregate demand for all of the customers served by each supplier ("own-load"). NECO will estimate Seller's Wholesale Standard Offer Service "own-load" within NECO's service territory and report the hourly results to NEPOOL or the ISO on a daily basis.

The estimation process is a cost effective approach to producing results that are reliable, unbiased and reasonably accurate. The hourly load estimates will be based on rate class load profiles which will be developed from statistically designed samples. Each day, the class load shapes will be scaled to the population of customers served by each supplier. In cases where telemetered data on individual customers are available, they will be used in place of the estimated shapes. On a monthly basis, the estimates will be refined by incorporating actual usage data obtained from meter readings. In both processes, the sum of all suppliers' estimated loads will match the total load delivered into the distribution system. A description of the estimation process follows.

Daily Estimation of Suppliers' Own Load

The daily process estimates the hourly load for each supplier for the previous day. There are five components in this process:

- Select a proxy date from the previous year with characteristics which best match the day for which the hourly demand estimates are being produced. Extract class load shapes for the selected proxy date from the load research data base.
- Scale the class load shapes appropriately for each individual customer based on the usage level of the customer relative to the class average usage level.
- Calculate a factor for each customer which reflects their relative usage level and includes an adjustment for losses ("load adjustment factor"). Aggregate the load adjustment factors across the customers served by each supplier in each class.
- Produce a preliminary estimate of each supplier's hourly loads by combining the proxy day class load shapes with the supplier's total load adjustment factors. Aggregate the loads across the classes for each supplier.

- Adjust the preliminary hourly supplier estimates so that their sum is equal to NECO's actual hourly metered loads (as metered at the point of delivery to the distribution system) by allocating any differences to suppliers in proportion to their estimated load.

Monthly Reconciliation Process

The monthly process will improve the estimates of supplier loads by incorporating the most recent customer usage information, which will be available after the monthly meter readings are processed. A comparison will be made between customers' estimated and actual usage, by billing cycle, then summed across billing cycles for each supplier. The ratio between the actual kWh and the estimated kWh reflects the kWh amount for which the supplier may have been overcharged or undercharged by NEPOOL or the ISO during the month. This ratio will be used to develop a kWh adjustment amount for each supplier for the calendar month. The sum of the adjustments will be zero because the total kWh will still be constrained to equal NECO's actual hourly metered loads during the month.

Appendix C. Arbitration Agreement

ARBITRATION AGREEMENT

This Arbitration Agreement, dated as of September 1, 1998, is entered into between The Narragansett Electric Company, a Rhode Island corporation ("NECO") and USGen New England, Inc., a Delaware corporation ("Seller"). Reference is made to that certain Amended and Restated NECO Wholesale Standard Offer Service Agreement II dated as of September 1, 1998 (the "Service Agreement") between NECO and Seller. Unless otherwise specified or apparent from the context of this Arbitration Agreement, the term "Party" shall mean either NECO or Seller, or both of them.

WHEREAS, NECO and Seller wish to avoid the burden, time, and expense of court proceedings with respect to any disputes that may arise from or relate to the Service Agreement, and to submit such disputes to mandatory binding arbitration if they cannot first be resolved through negotiation and mediation.

NOW, THEREFORE, NECO and SELLER AGREE AS FOLLOWS:

1. Mediation

Before resorting to mediation or arbitration under this Arbitration Agreement, the Parties will try to resolve promptly through negotiation any Arbitrable claim, as defined below. If the Arbitrable Claim has not been resolved through negotiation within ten (10) days after the existence of the Arbitrable Claim has been brought to the attention of the other Party in a writing, any Party may request in writing to resolve the Arbitrable Claim through mediation conducted by a mediator selected by agreement of the Parties. The mediation procedure shall be determined by the Parties in consultation with the mediator. Any mediation pursuant hereto shall be kept confidential. The fees and expenses of the mediator shall be borne equally by the Parties. If the Parties are unable to agree upon the identity of a mediator or a mediation procedure within ten (10) days after a Party has requested mediation in writing or if the Arbitrable Claim has not been resolved to the satisfaction of either NECO or Seller within forty (40) days after the Parties have selected a mediator and agreed upon a mediation procedure, either Party may invoke arbitration pursuant to the following sections by notifying the other Party of such selection in writing consistent with Section 3(c), below.

2. Mandatory Arbitration

(a) Except as provided in paragraph (b) of this Section 2 and in Section 8, below, any case, controversy or claim arising out of or relating to the Service Agreement, its breach, or any other disputes arising out of the business relationship created by the Service Agreement, of whatever nature, including but not limited to any claim based in contract, in law, in equity, any statute, regulation, or theory of law now in existence or which may come into existence in the future, whether known or unknown, including without limitation, claims based upon deceit,

fraudulent inducement, misrepresentation, 18 U.S.C §§1962 and 1964 (RICO), and R.I. G.L. Title 6, c. 13.1, the federal and state antitrust laws (collectively, the “Arbitrable Claims”), which cannot be resolved by negotiation or mediation, as provided in Section 1 above, shall be submitted to mandatory, binding, and final arbitration in accordance with procedures set forth in this Agreement, which shall constitute the exclusive remedy for any and all Arbitrable Claims.

(b) Notwithstanding paragraph (a) above, physical accidents or events giving rise to negligence or intentional tort claims for the recovery of property damages and/or damages for personal injury and failure to make payments due under Section 5.2 of the Service Agreement shall not be considered “Arbitrable Claims.” However disputes regarding the interpretation or scope of any indemnification clauses in the Service Agreement shall be subject to arbitration, even if the dispute relates to whether one Party must indemnify the other for property damages and/or damages for personal injury, the recovery of which was or will be determined in a court of law.

(c) Each Party agrees that it will not attempt to circumvent this Arbitration Agreement by coordinating or cooperating with their respective parent companies or affiliates or guarantors in the filing of a legal action in the name of any of the parent companies or affiliates or guarantors of the Parties to this Arbitration Agreement regarding claims that otherwise are subject to this Arbitration Agreement. Any Party failing to comply with this provision shall indemnify the other Party against, and hold the other harmless from, the costs (including reasonable litigation costs) incurred by the other in defending any and all claims brought by a parent company or affiliate or guarantor of the other in a court of law regarding claims that otherwise would be Arbitrable Claims under this Arbitration Agreement.

3. Selection and Qualification of Arbitrators

(a) Any arbitration shall be conducted by a panel of three neutral arbitrators, consisting of (i) a practicing lawyer admitted to practice in the Commonwealth of Massachusetts; (ii) a person with professional experience in and substantial knowledge of the power generation industry in any one or more of the New England States, who may be, but need not be a lawyer, and (iii) a person with professional experience in and substantial knowledge of power markets in any one or more of the New England States, who may, but need not be, a lawyer (collectively, the “Arbitration Panel”). For purposes of this Arbitration Agreement, an arbitrator or candidate shall be considered “neutral” only if the arbitrator or candidate has not previously served as an arbitrator for a Party or one of its affiliates or guarantors and is not a present or former lawyer, employee or consultant of a Party or any of its affiliates or guarantors.

(b) Any Party entitled to commence arbitration hereunder shall do so by serving a written Notice of Arbitration briefly describing the Arbitrable Claims and the Agreements under which they are brought. Service of such Notice of Arbitration shall be complete upon receipt by the person designated for each party at the addresses specified in Section 12 below.

(c) Within twenty (20) days after service of a Notice of Arbitration, each Party shall serve upon the other Party a list of seven neutral candidates for each of the three panel members described in subparagraph (a) above.

(d) Within twenty (20) days after service of the lists referred to in subparagraph (c), NECO and Seller shall then strike from the other's lists any two candidates from each of the lists, for any reason whatsoever. For the remaining candidates each Party shall rank each candidate on its three lists from one to five and shall do the same for the other Party's lists.

(e) The candidates in each of the three categories with the lowest total score shall be invited to serve as panel members. In the event that the candidate in any of the three categories with the lowest total score is unable or unwilling to serve, or has a potential conflict of interest not consented to by each Party, then the candidate with the next lowest score in that category shall be invited to serve, subject to full disclosure by each candidate of, and consent by each Party to any potential conflicts of interests. This process shall be repeated until a full arbitration Panel is selected or the list of candidates for that category is exhausted. If the list of candidates for a category is exhausted the Parties shall exchange a new list of candidates for that category and the procedures set forth above shall be repeated a second time.

(f) If the parties cannot select a full Arbitration Panel in accordance with these procedures than any Party may request that a court of competent jurisdiction appoint the remaining members subject to their qualifications, willingness and ability to serve as provided above.

(g) The American Arbitration Association shall be appointed to facilitate and administer the parties' compliance with the procedures set forth above.

4. Time Schedule

The Arbitration shall be conducted as expeditiously as possible. The Arbitration Panel shall schedule a pre-hearing conference and hearings as it deems advisable and shall use its best efforts to schedule consecutive days of hearings. Hearings shall be limited to a total of ten (10) days. The Arbitration Panel shall issue its final decision and award within thirty (30) days of the close of the hearings, which shall be accompanied by a written, reasoned opinion.

5. Remedies

(a) The Arbitration Panel shall not award punitive or multiple damages or any other damages not measured by the prevailing Party's actual damages - except that the Arbitration Panel, in its sole discretion, may shift all or a portion of the costs of the Arbitration to any Party.

(b) Any award of damages by the Arbitration Panel shall be determined, limited and controlled by the damages limitation clauses of the Service Agreement applicable to the dispute before the Arbitration Panel.

(c) The Arbitration Panel may, in its discretion, award pre-award and post-award interest on any damages award; provided, however, that the rate of pre-award or post-award

interest shall not exceed a rate equal to the rate provided for post-judgment interest by 28 U.S.C. § 1961 as published from time to time by the Administrative Office of the United States Courts based on the equivalent coupon issue yield for auctions of 52-week Treasury bills.

6. Confidentiality

The existence, contents, or results of any mediation or arbitration hereunder may not be disclosed without the prior written consent of both Parties; provided, however, either Party may make disclosures as may be necessary to fulfill regulatory obligations to any regulatory bodies having jurisdiction, and may inform their lenders, affiliates, auditors and insurers, as necessary, under pledge of confidentiality and can consult with experts as required in connection with the arbitration under pledge of confidentiality. If any Party seeks preliminary injunctive relief from any court to preserve the status quo or avoid irreparable harm pending mediation or arbitration, the Parties agree to use best efforts to keep the court proceedings confidential, to the maximum extent permitted by law.

7. FERC Jurisdiction over Certain Disputes

(a) Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, any Party from filing a petition or complaint with the Federal Energy Regulatory Commission ("FERC") with respect to any Arbitrable Claim. In such case, the other Party may request FERC to reject or to waive jurisdiction. If the FERC rejects or waives jurisdiction, with respect to all or a portion of the claim, the portion of the claim not so accepted by FERC shall be resolved through arbitration, as provided in this Arbitration Agreement. To the extent that FERC asserts or accepts jurisdiction over the claim, the decision, finding of fact, or order of FERC shall be final and binding, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings.

(b) The Arbitration Panel shall have no authority to modify, and shall be conclusively bound by, any decision, finding of fact, or order of FERC. However, to the extent that a decision finding of fact, or order of FERC does not provide a final or complete remedy to the Party seeking relief, such Party may proceed to arbitration under this Arbitration Agreement to secure such remedy, subject to the FERC decision, finding or order.

8. Preliminary Injunctive Relief

Nothing in this Arbitration Agreement shall preclude, or be construed to preclude, the resort by either Party to a court of competent jurisdiction solely for the purposes of securing a temporary or preliminary injunction to preserve the status quo or avoid irreparable harm pending mediation or arbitration pursuant to this Arbitration Agreement.

9. Governing Law

This Arbitration Agreement shall be construed, enforced in accordance with, and governed by, the laws of the State of Rhode Island.

10. Location of Arbitration

Any arbitration hereunder shall be conducted in Boston, Massachusetts.

11. Severability

If any section, subsection, sentence, or clause of this Arbitration Agreement is adjudged illegal, invalid, or unenforceable, such illegality, invalidity, or enforceability shall not affect the legality, validity, or enforceability of the Arbitration Agreement as a whole or of any section, subsection, sentence or clause hereof not so adjudged.

12. Notices

Any notices required to be given pursuant to this Arbitration Agreement shall be in writing and sent to the receiving party by (i) certified mail, return receipt requested, (ii) overnight delivery service, or (iii) facsimile transmission (confirmed by telephone), addressed to the receiving party at the address shown below or such other address as a party may subsequently designate in writing. Any such notice shall be deemed to be given (i) three days after deposit in the United States mail, if sent by mail, (ii) when actually received if sent by overnight delivery service, or (iii) when sent, if sent by facsimile and confirmed by telephone.

If to NECO: The Narragansett Electric Company
25 Research Drive
Westborough, Massachusetts 01582
Attention: General Counsel
Facsimile: (508) 389-2463

If to Seller USGen New England, Inc.
7500 Old Georgetown Road, 13th Floor
Bethesda, MD 20814
Attention: Stephen A. Herman, Esq.
Facsimile: (301) 718-6913

In addition, the parties shall send copies of any notices required by the terms of any of the Agreements, in accordance with the terms of each Agreement.

IN WITNESS WHEREOF, each Party has caused its duly authorized officers to execute this Arbitration Agreement on the dates set forth below.

THE NARRAGANSETT ELECTRIC COMPANY

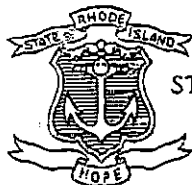
BY: _____

Its _____

USGEN NEW ENGLAND, INC.

BY: _____

Its _____



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DIVISION OF PUBLIC UTILITIES AND CARRIERS

89 Jefferson Boulevard
Warwick, R.I. 02888
(401) 941-4500

FAX (401) 941-9248
TDD (401) 941-4500

September 25, 2002

Thomas G. Robinson, Esquire
Terry L. Schwennesen, Esquire
Narragansett Electric Company
280 Melrose Street
Providence, RI 02901

Dear Mr. Robinson:

On September 20, 2002, Narragansett Electric Company ("Narragansett") made a filing with the Division requesting authorization, pursuant to Section 39-1-27.3(b) of the Rhode Island General Laws, to release U.S. Gen New England, Inc. ("USGen") from a portion of its current contractual obligation to supply Narragansett's wholesale standard offer power requirements. At present, USGen is obligated to supply 90.78% of Narragansett's pre-merger standard offer requirements for those customers who have been receiving standard offer service as of January 1, 1998 pursuant to an agreement between Narragansett and USGen dated October 29, 1997, which subsequently was amended by agreement of the parties on September 1, 1998 and again on December 23, 1999 (As amended, the "USGen Agreement").

Narragansett proposes to release USGen of a portion of its standard offer supply obligations, which, if approved, would permit USGen to reduce its load obligation from 90.78% to 50.78% of Narragansett's pre-merger standard offer supply obligations. In substitution thereof and in accordance with the USGen Agreement, Narragansett intends to enter into a separate agreement with Constellation Power Source, Inc. ("CPS") to provide 40% of Narragansett's standard offer supply requirements. Narragansett represents that it has entered into an agreement with CPS, the force and effect of which remains subject to receipt of certain regulatory approvals.

In support of its request to release USGen of its obligation to provide 40% of Narragansett's standard offer supply requirements, Narragansett represents that "prices in the New Agreement for the supply of wholesale standard offer service are identical to those in the USGen Agreement." Narragansett also represents that the new agreement with CPS "neither modifies the underlying

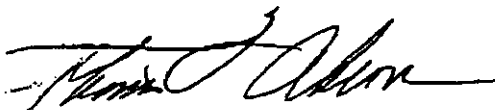
business transaction nor shifts any additional costs, burdens or risks to the Company." Lastly, Narragansett represents that the agreement with CPS contains "substantially improved credit protection provisions to assure the parties' performance."

The Division has considered Narragansett's request and, based upon the above representations, will authorize Narragansett to release USGen of 40% of Narragansett's standard offer load obligation. In authorizing the release, the Division takes notice of the fact that the credit rating of USGEN's parent company, PG&E National Energy Group, has recently been downgraded to junk bond status by Standard and Poor's. The improved credit protection provisions provide greater assurance of CPS' performance in the event that CPS' creditworthiness were to decline during the term of the agreement.

Most importantly, however, the new agreement with CPS ensures that the prices to Narragansett's standard offer customers are identical with those contained in the USGen Agreement. Moreover, the Division's consent is rendered on the condition that the new agreement does not now, or at any time during the term of the new agreement, shift additional costs or liabilities to Narragansett's retail customers.

This letter serves a formal notice of the Division's consent to authorize a release of USGen from providing 40% of Narragansett's wholesale standard offer supply requirements, subject to the findings and conditions contained herein.

Very truly yours,



Thomas F. Ahern
Administrator

Attachment 9

The following is a list of Federal Energy Regulatory Commission filings by National Grid concerning the NEPOOL allocation of energy market uplift and NCPC charges:

- February 8, 1999, Docket No. ER99-1374-000, Motion to Intervene, Protest and Request Summary Disposition
- May 4, 1999, Docket Nos. ER99-1374-001, ER99-1556-001, ER99-1609-000, Request for Rehearing
- January 19, 2000, Docket Nos. ER99-2335-000, ER00-984-000, ER00-985-000, Motion to Intervene and Supporting Comments
- April 25, 2000, Docket Nos. EL00-62-000, ER00-2052-000, ER00-2016-000, EL00-59-000, ER00-2005-000, Motion to Intervene, Comments and Protest
- October 26, 2000, Docket No. EL00-62-011, Protest and Comments
- November 13, 2000, Docket No. EL00-62-011, Answer to Protests
- March 26, 2001, Docket No. ER01-1401-000, Motion to Intervene and Protest
- April 10, 2001, Docket No. ER01-1401-000, Answer to Protest and Comments
- April 20, 2001, Docket No. ER01-1401-000, Answer to Supplemental Comments
- August 3, 2001, Docket Nos. EL00-62-031, ER98-3853-009, Motion to Intervene and Protest
- August 30, 2001, Docket Nos. EL00-62-031, ER98-3853-009, Response to Motion to Answer and Answer and Response
- April 2, 2002, Docket Nos. EL00-62-043, ER98-3853-012, Answer to Motion for Clarification
- April 18, 2002, Docket Nos. EL00-62-044, ER98-3853-013, Motion to Intervene and Protest
- May 3, 2002, Docket Nos. EL00-62-044, ER98-3853-013, Response to Comments
- August 19, 2002, Docket Nos. EL00-62-043, EL00-62-044, ER98-3853-012, ER98-3853-013, Answer to Motion for Emergency Stay, Request for Reconsideration, and Requests for Rehearing

Attachment 10

The information contained in this attachment is privileged and confidential.

A complete copy of this attachment has been provided under separate cover with
a request for confidential treatment.

Attachment 11

The information contained in this attachment is privileged and confidential.

A complete copy of this attachment has been provided under separate cover with
a request for confidential treatment.

Attachment 12

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Attachment 16

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Attachment 17

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a request for confidential treatment.

Attachment 18

The information contained in this attachment is privileged and confidential.

A complete copy of this attachment has been provided under separate cover with
a request for confidential treatment.

Attachment 19

The following table provides the amount of the deferred costs, by category, for the period from January 1999 through May 2004 associated with the wholesale standard offer service provided by USGenNE and TransCanada:

	USGenNE	TransCanada	Total
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	\$5,933,166.64	\$941,809.26	\$6,874,975.90

S:\RADATA1\2004 neco\RIPUC - Uplift filing\[typical bill.xls]recovery

The Narragansett Electric Company
Calculation of Estimated Cost of Recovery of Disputed Uplift Charges

Section 1. Calculation of Estimated Recovery Factor.

	Disputed Charges (a)	Interest (b)	Charges with Interest (c)=(a) + (b)
Disputed Charges for the period June 1999 through Sept 2003	\$6,211,495	\$578,114	\$6,789,609
Cost Incurred for the period Oct 2003 through May 2004	<u>\$663,480</u>	<u>\$0</u>	<u>\$663,480</u> (1)
Balance @ September 2003 (per RIPUC Docket No. 3571)	\$6,874,975	\$578,114	\$7,453,089

Month	Beginning Balance (1)	Surcharge/ (Refund) (2)	Ending Balance (3)	Interest Rate (4)	Interest (5)
Jan-05	\$7,453,089	\$621,091	\$6,831,998	0.334%	\$23,868
Feb-05	\$6,855,866	\$623,261	\$6,232,606	0.334%	\$21,869
Mar-05	\$6,254,474	\$625,447	\$5,629,027	0.334%	\$19,855
Apr-05	\$5,648,882	\$627,654	\$5,021,229	0.334%	\$17,828
May-05	\$5,039,057	\$629,882	\$4,409,175	0.334%	\$15,786
Jun-05	\$4,424,961	\$632,137	\$3,792,824	0.334%	\$13,731
Jul-05	\$3,806,554	\$634,426	\$3,172,129	0.334%	\$11,660
Aug-05	\$3,183,789	\$636,758	\$2,547,031	0.334%	\$9,575
Sep-05	\$2,556,606	\$639,152	\$1,917,455	0.334%	\$7,475
Oct-05	\$1,924,930	\$641,643	\$1,283,287	0.334%	\$5,360
Nov-05	\$1,288,647	\$644,324	\$644,324	0.334%	\$3,230
Dec-05	\$647,553	\$647,553	\$0	0.334%	\$1,082
					\$151,320
Total Surcharge/(Refund) to Customers with Interest			\$7,604,409		
Total Forecasted kWh Sales for 12 months ending Dec 2005			<u>7,839,517,000</u>		
Reconciliation Transmission Adjustment Factor per kWh			\$0.00097		

Column Descriptions

- 1 Column (3) + Column (5) of previous month
- 2 For Jan 2005, (Column (1)) ÷ 12. For Feb 2005, (Column (1))÷11, etc.
- 3 Column (1) - Column (2)
- 4 Current Rate for Customer Deposits
- 5 ((Column (1) + Column (3))÷2)* Column (4)

(1) Interest on charges incurred during the current period transmission reconciliation, if any, will be calculated at the time of the Company's annual reconciliation filing.

Section 2. Typical Bill Calculation - Regular Residential Customer

1. Monthly kWh Usage	500
2. Estimated kWh charge	<u>\$0.00097</u>
3. Estimated Monthly Increase (Line 1 x Line 2)	\$0.49
4. Current Monthly Bill	60.49
5. Estimated Monthly Bill with Increase (Line 3 + Line 4)	\$60.98
6. % Increase (Line 3 ÷ Line 4)	0.81%